

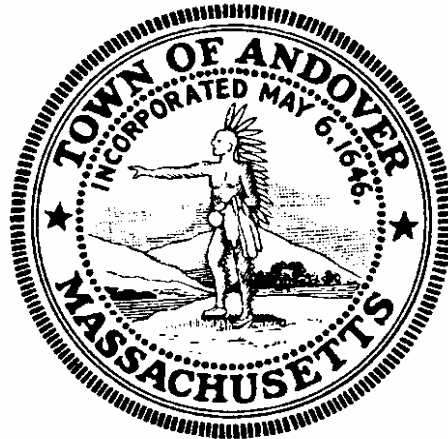
TOWN OF ANDOVER, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



Photo by Robert Dennis

For the fiscal year ended June 30, 2004



Town of Andover Board of Selectmen

2004



**2004 Board of Selectmen, from left to right: John P. Hess, Ted E. Teichert,
Brain P. Major, Mary K. Lyman, Alex J. Vispoli**

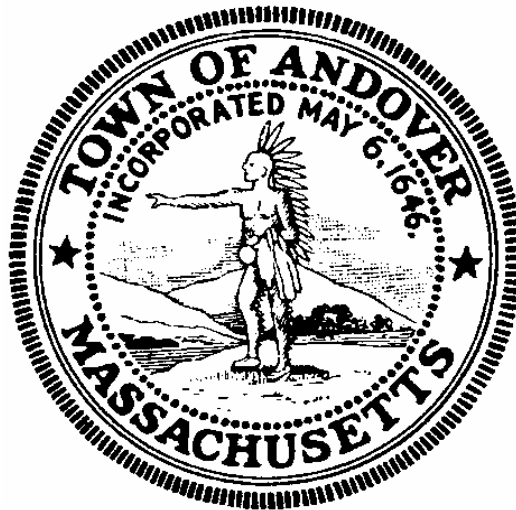
*The Town of Andover, more than a place to live, is a way of life.
Its legacy of democracy shall be preserved. Each citizen should experience the treasures
of nature, history, individual respect, neighborhood, and learning. As resources and energy allow, each of these
gifts from the past will be enriched in the present for those yet to be.*

Vision Statement of the Board of Selectmen

TOWN OF ANDOVER, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended
June 30, 2004



Prepared by:

Rodney Smith, Town Accountant

TOWN OF ANDOVER, MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2004

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Introductory Section

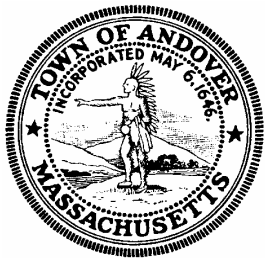


Photo by Robert Dennis

Town Offices

Introductory Section

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Town of Andover

36 Bartlet Street
Andover, Massachusetts 01810
(978) 623-8211
FAX (978) 623-8208

Letter of Transmittal

October 8, 2004

To Brian P. Major, Members of the Board of Selectmen and Citizens of the Town of Andover:

At the close of each fiscal year, state law requires the Town of Andover to publish a complete set of financial statements in conformity with accounting principals generally accepted in the United States of America (GAAP), and that are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the Town of Andover, Massachusetts, for the fiscal year ending June 30, 2004 for your review.

This report consists of management's representations concerning the finances of the Town of Andover. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town of Andover has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Town of Andover's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town of Andover's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The Town of Andover's financial statements have been audited by Powers & Sullivan, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Andover for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principals used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Andover's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Andover was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Town of Andover's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement that analysis and should be read in conjunction with it. The Town of Andover's MD&A can be found immediately following the report of the independent auditors.

Profile of the Town

Andover is located in Essex County in the northeastern part of Massachusetts, approximately 23 miles north of Boston. Located on the banks of the Merrimack River, Andover is bordered on the north by the cities of Lawrence and Methuen, on the east by the town of North Andover, on the south by the towns of North Reading and Wilmington, and on the west by the towns of Tewksbury and Dracut. Andover has approximately 32 square miles of land area, and 223 miles of roadways.

Andover is bisected by two major highway systems, Routes 93 and 495, and a number of secondary roadways including Routes 28, 133, 114 and 125. Public transportation is available via two commuter rail service stations from Andover to the metropolitan Boston area provided by the Massachusetts Bay Transportation Authority, and a regional bus service provided by the Merrimack Valley Transit Authority.

Andover was originally settled in 1636 under the native-american name of Cochichawicke, a local waterway. The community was incorporated in 1646 as the Town of Andover, named after a town in England where many of its settlers had come from.

From the earliest days of the town, manufacturing has played a major part in its development. The region's first powder mill was established in 1775; the manufacture of paper began in 1789; and in the early nineteenth century, several woolen mills prospered. While all of these early forms of manufacturing have since moved away, Andover continues to attract major modern industries.

Andover is known for its forward thinking government, committed to quality, responsiveness, and service. The Town's governing charter was enacted by the Legislature in 1956, and amended in 1974. The Charter authorizes an open town meeting-board of selectmen-town manager form of government. The Town is overseen by an elected five-member Board of Selectmen, and is administered by an appointed professional Town Manager, who also oversees approximately 20 departments and divisions. Andover's public schools are overseen by an elected five-member School Committee, and administered by an appointed professional Superintendent. There are also various appointed boards and committees which have specific responsibilities concerning various aspects of town governance. Town Meeting, which is generally unique to New England, serves as Andover's legislative body. It offers all registered voters of the community the opportunity to participate in the major decisions of the Town. Town Meeting is facilitated by an elected Town Moderator, who is responsible for appointing a nine-member Finance Committee, which in turn is responsible for advising Town Meeting on all matters brought before it.

The Town provides a full array of high-quality services to the general public, including: full-time police and fire protection; schools for grades kindergarten through 12 (one early childhood, five elementary, three middle, one senior high, and one regional vocational technical high school); solid waste disposal and recycling; street maintenance and snow removal; public health and natural resource protection; community development and planning; elder, youth and veterans services; a full service library; and various parks, playgrounds, conservation lands, and recreational programs. The Town also operates its own water supply, purification, and distribution system; and provides sanitary waste disposal via connections to a regional treatment facility. During the summer months the Town operates Pomp's Pond, a family and youth oriented recreation area located off Abbott Street, which includes recreational and instructional swimming; shaded picnic tables; boat rentals; volleyball; and a children's playground. The Town of Andover is committed to a high degree of community responsiveness; providing high quality services to its citizens, and conducting all of its affairs in a professional manner.

The Town Manager is responsible for preparing and presenting the budget to the Board of Selectmen. The Selectmen review all requests and Town wide issues and present a budget to Town Meeting for approval. A nine member Finance Committee reviews the budget and makes recommendations to Town Meeting.

The level of budgetary control is established by Town Meeting and this approval defines the level at which expenditures may not exceed appropriations. This level is typically at the individual department level. The Town Accountant is responsible for ensuring all payroll and invoices are within the budgetary control level before authorizing payment. Additional appropriations may be approved at subsequent Town Meetings. These controls ensure compliance with the budget approved by Town Meeting.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the Town of Andover operates.

Local economy. Andover is home to businesses of all sizes. The Town is known for its vibrant and diversified local economy. With its major intersecting highways, busy rail-line, and proximity to international airports in Boston and Manchester, Andover is a true business “cross roads.” The Town offers several industrial parks, a thriving downtown central business district, and a number of mixed use commercial areas. Andover is a highly sought after location for large companies representing major industries, including those involved in defense contracting, computer hardware and software, biotech, and medical products. Andover’s ten largest commercial/industrial employers are Raytheon, Philips Electronics, Wyeth BioPharma, Putnam Investments, Vicor, Verizon, Compaq, Gillette, Smith-Nephew, and Converse Network Systems. There are approximately 259 acres of developable commercial and industrial land remaining in Town, as well as significant office space rental opportunities, suitable for accommodating almost any business need. The Town anticipates continued expansion of its sizable \$5.6 billion tax base given its favorable location, diverse high-end employment base, and availability of developable land. Andover has seen solid growth rates, averaging 9.7% annually since 1999, reflecting continued expansion of commercial and industrial properties and sustained value appreciation.

Long-term financial planning. The Town of Andover has a proud history of maintaining a solid financial position in all economies, as indicated by its continued “Aaa” bond rating. The Town’s financial actions are generally guided by a number of formal financial policies including long range planning tools such as a five-year forecast, a five-year Capital Improvement Program; prioritizing spending plans and identifying discretionary spending; pay-as-you go financing strategies; long-term planning for all liabilities including pension and insurance reserves, and municipal best practices, which are reviewed annually at the beginning of each budget development cycle.

Given a number of years of reduced state aid, the Town has been able to minimize the impact to municipal and school services through a combination of prudent budgeting, user fee adjustments, strong tax collections, and continued property growth, along with taking steps towards slowing the raising rate of employee healthcare costs. The Town has also been able to maintain a significant level of reserve capacity during these challenging years.

The Town is currently managing approximately \$110 million worth of long and short-term debt. This indebtedness consists of approximately \$83 million of General Obligation Bonds and \$28 million of Short Term Notes outstanding. Approximately \$35 million (or 43%) of the \$83 million is scheduled to be paid by the end of fiscal 2008, and the remaining \$68 million by fiscal 2013. Approximately \$36 million has been excluded from the limits of Proposition 2½, and about \$23 million is self-supporting through enterprise fund revenues. Also, the Commonwealth will be reimbursing the Town approximately \$26 million of the General Obligation Bonds through a program to assist the communities in the building of new school facilities.

The Town has identified approximately \$68 million in capital improvements needed over the next 5 years. \$23 million of this amount is associated with ongoing maintenance of school and Town facilities. \$14 million is associated with the upkeep of roads, bridges, sidewalks, and drains. \$12 million is associated with water and sewer maintenance and improvements, supported by enterprise funds. \$13 million is associated with a new senior center and two fire sub-stations, the cost of which would be provided for from exempted debt outside the limits of Proposition 2½. The remaining \$6 million is associated with general capital items such as vehicles and technology infrastructure.

The Town of Andover has enhanced its revenue flexibility by establishing enterprise funds and many other user supported programs. This has allowed the Town to shift the operating costs to the users of certain services so that little or no tax support goes towards providing these services. By doing so, the Town is able to provide the maximum tax dollars available to all other services.

Cash management policies and practices. The Town of Andover issues property tax bills quarterly and derives approximately 73% of annual General Fund revenue from this source. The quarterly billings result in a cyclical buildup and then spend down of operational cash reserves. Every effort is made to put our reserves to work. For the past 24 months, this has been a challenging proposition due to the historically low rate of return for most traditional investment vehicles. For several months now, the Federal Reserve has pegged their Overnight Funds Rate at 1%. Most permissible investments are influenced by this rate. The Town's investment policy remains conservative with particular attention to the constraints of safety and liquidity while attempting to secure the highest yield possible within those constraints.

On a daily basis, the Treasurer transfers excess funds out of all depository accounts into a collateralized repurchase account with Century Bank. Surpluses are transferred to various banks to obtain the highest competitive return. The Treasurer is responsible for having on hand adequate cash to pay bills and fund payroll on a weekly basis. Requirements as such, including legal investment constraints, limit the Treasurer's ability to invest longer term. In today's earnings environment, short-term earnings are modest.

The Treasurer must continually evaluate cash flow data to determine that amount of money that can be invested for a longer term, thus yielding a higher return. The Treasurer operates on an aggregate cash basis and invests in the same fashion. This means that the Treasurer does not make separate investments linked to fund balances maintained on the general ledger but invests on the basis of estimated aggregate cash surpluses and the availability of those surpluses. Currently, the maturities of the various investments range from 30 days to one year with an average maturity of approximately three months.

While maintaining a highly diversified investment portfolio, the Treasurer also aims to maintain competitive investment relationships with numerous banks and other financial institutions. Currently these relationships number thirteen. Since short-term rates fluctuate frequently amongst these institutions, the Treasurer has arranged to be notified automatically whenever a rate change occurs.

Fleet Trust Division manages the Town's trust funds. Each trust fund has a distinct purpose and, therefore, the mix of holdings in cash, fixed income securities and equities will vary by fund. The amount of annual income required and the timing of disbursements generally governs this mix.

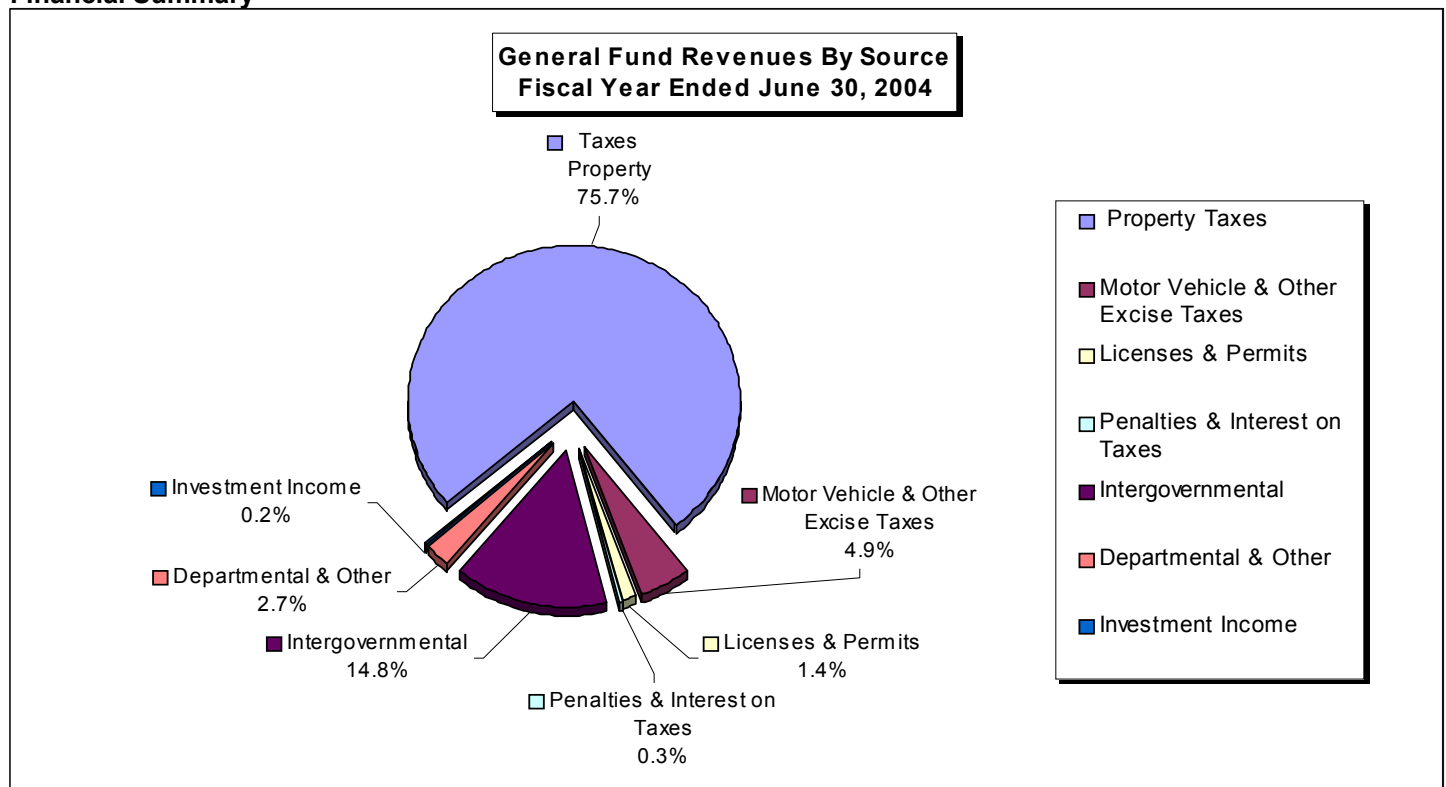
Risk management. The Town of Andover manages its risk through a combination of self-insured programs and premium based coverage with commercial insurance carriers. Health care and workers compensation are a combination of self-insured and premium based plans. The Town is exposed to various risks of loss related to general liability, property and casualty, workers' compensation and unemployment compensation claims. Buildings and property are fully insured against fire, theft and natural disaster to the extent that losses exceed the Town's deductible per incident. These deductibles vary by type of incident, none of which exceed \$25,000.

Pension and other post-employment benefits. The Town of Andover contributes to the Andover Contributory Retirement System (the System), a cost sharing, defined benefit pension plan administered by the Andover Contributory Retirement Board. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the Town of Andover must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a requirement by law, the Town of Andover fully funds each year's annual required contribution to the pension plan as determined by the actuary. The System has succeeded in funding 78% of the present value of the projected benefits earned by employees. The remaining unfunded amount is being systematically funded over 20 years as part of the annual required contribution calculated by the actuary.

The Town of Andover also provides post retirement health care benefits for certain retirees and their dependents. There were 350 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. GAAP does not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. For *Fiscal 2009* the Town will have to conduct an actuarial valuation to determine this unfunded liability and begin to recognize the annual cost of reducing this liability in addition to the current year benefits.

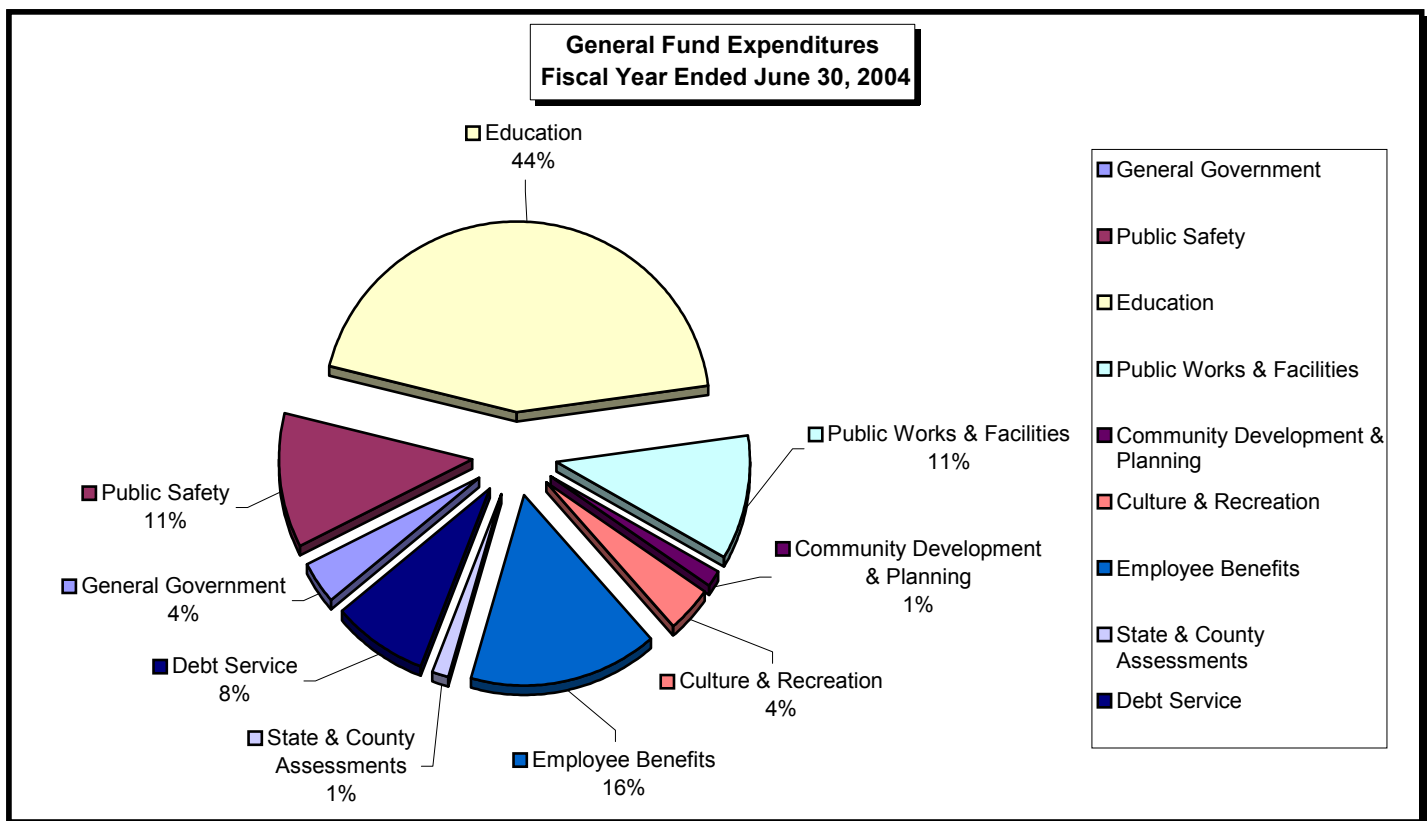
Additional information on the Town of Andover's pension and post employment benefits can be found in the notes to the financial statements.

Financial Summary



- Tax revenue continues to be the most significant revenue source for the Town, comprising approximately 76% of total general fund revenue. Tax revenue increased in accordance with the provisions of the Massachusetts law, which limits such increase to 2 ½ % over the preceding year plus an allowance for new growth.

- Intergovernmental revenue represents approximately 15% of total general fund revenues. This includes state aid as well as approximately \$5,909,000 million in on-behalf payments made by the State to the Massachusetts Teachers' Retirement Association for teachers' pension benefits.
- Motor vehicle revenue continued to be a strong source of revenue. Motor vehicle revenue continues to represent approximately 5% of the total general fund revenues.
- Investment income remains strong in FY04 despite lower interest rates, reflecting higher than average cash balances.
- License and permit revenue remains strong, reflecting strong home renovation and building activity in the Town.



- Education continues to represent the largest category of general fund expenditures, approximately 44% in FY04. The Town is committed to providing a high-quality education through its public schools.
- Public Safety and Public Works represent a combined 22% of general fund expenditures. This reflects the Town's commitment to providing a safe, secure environment and essential public services.
- Debt service costs in FY04 were 8% of total general fund expenditures, reflecting increased principal and interest payments associated with water, sewer, school, and plant and facilities programs.
- Employee benefits were 16% of total general fund expenditures in FY04, reflecting high health insurance costs experienced throughout the state and the region.

The Town's general fund undesignated fund balance that is available for appropriation by Town Meeting is certified as "free cash" by the Department of Revenue's Bureau of Accounts. Andover's certified "free cash" as of June 30, 2004 is \$2,180,483 as compared to \$4,413,574 as of June 30, 2003. The Town remains committed to conservative budgets, tight management controls, and to maintaining reserves, particularly the Stabilization Fund which has a balance of \$478,888 at June 30, 2004.

Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the Finance and Accounting department staffs. We would like to express our appreciation to all the members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the Town Selectmen and Town Manager for their unfailing support for maintaining the highest standards of professionalism in the management of the Town of Andover's finances. And special thanks to Steven Bucuzzo, Assistant Town Manager, Anthony Torrisi, Finance and Budget Director, David Reilly, Town Treasurer, and Theo Moccia, Assistant Town Accountant.

Respectfully submitted,

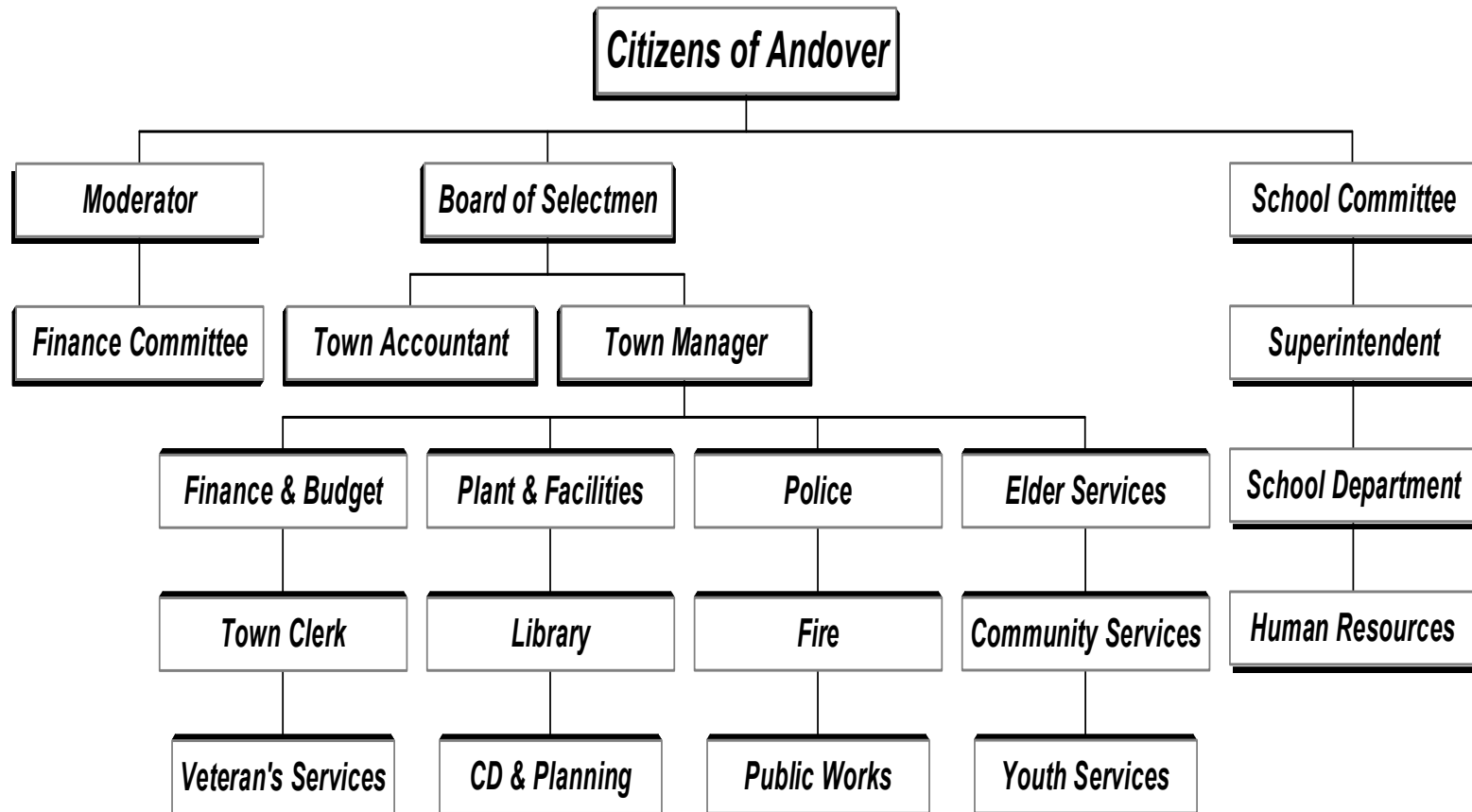


Reginald S. Stapczynski
Town Manager



Rodney P. Smith
Town Accountant

Organizational Chart



Principal Town Officials

Elected Officials

Board of Selectmen

Brian P. Major, Chairman
John P. Hess
Mary K. Lyman
Ted E. Teichert
Alex J. Vispoli

Town Moderator

James D. Doherty

School Committee

Anthony H. James, Chairman
Arthur H. Barber
Richard J. Collins
Debra Rahmin Silberstein
Christopher G. Smith

Appointed Officials

Town Manager
Assistant Town Manager
Town Accountant
Finance Director
Treasurer
Town Assessor
Town Clerk
Fire Chief
Police Chief
Human Resources Director
Library Director
Plant & Facilities Director
Public Works Director

Reginald S. Stapczynski
Steven S. Bucuzzo
Rodney P. Smith
Anthony J. Torrisi
David J. Reilly
Bruce A. Symmes
Randall L. Hanson
Charles H. Murnane, Jr.
Brian J. Pattullo
Candace Hall-Nourse
James E. Sutton
Joseph R. Piantedosi
John A. Petkus, Jr.

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Financial Section



High Plain Elementary/Wood Hill Middle School was completed and occupied in September, 2002.

Financial Section

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Woburn, MA 01801

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Independent Auditors' Report

To the Honorable Board of Selectmen
Town of Andover, Massachusetts

 RAN-ONE | member

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Andover, Massachusetts, as of and for the fiscal year ended June 30, 2004 (except for the Andover Contributory Retirement System which is as of and for the year ended December 31, 2003), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Andover, Massachusetts' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Andover, Massachusetts, as of June 30, 2004 (except for the Andover Contributory Retirement System which is as of December 31, 2003), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The combining fund statements, as listed in the table of contents, are presented for the purpose of supplementary analysis and are not a required part of the financial statements of the Town of Andover, Massachusetts. Such supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2004, on our consideration of the Town of Andover, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script, reading "Powers + Sullivan".

October 8, 2004

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Andover, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2004. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). Management's discussion and analysis are part of these requirements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Andover's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, plant and facilities, community development, human services, library, state and county charges, and debt service. The business-type activities include the activities of water and sewer services.

The government-wide financial statements include not only the Town of Andover itself (known as the *primary government*), but also a legally separate public employee retirement system for which the Town of Andover is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Andover adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town maintains only one type of propriety fund.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer activities.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

Governmental Activities Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Andover's assets exceeded liabilities for governmental activities by \$105,669,033 at the close of Fiscal 2004.

	Governmental Activities	
	FY04	FY03
Assets:		
Current assets.....	\$ 51,286,709	\$ 38,050,788
Noncurrent assets (excluding capital).....	19,772,162	21,112,778
Capital assets.....	129,531,607	127,665,486
Total assets.....	200,590,478	186,829,052
Liabilities:		
Current liabilities (excluding debt).....	6,321,642	6,878,295
Noncurrent liabilities (excluding debt).....	5,728,000	5,728,000
Current debt.....	29,082,107	7,718,420
Noncurrent debt.....	53,789,696	77,464,803
Total liabilities.....	94,921,445	97,789,518
Net Assets:		
Capital assets net of related debt.....	89,679,889	73,686,298
Restricted.....	7,274,242	5,219,961
Unrestricted.....	8,714,902	10,133,275
Total net assets.....	\$ 105,669,033	\$ 89,039,534

Governmental net assets of \$89,679,889 (85%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the governmental net assets \$7,274,242 (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$8,714,902 (10%) may be used to meet the government's ongoing obligations to citizens and creditors.

Business-type Activities Net Assets

For the Town's business-type activities, assets exceeded liabilities by \$56,915,953 at the close of Fiscal 2004.

	Business-type Activities	
	FY04	FY03
Assets:		
Current assets.....	\$ 14,488,706	\$ 17,568,951
Noncurrent assets (excluding capital).....	4,078,318	3,097,782
Capital assets.....	72,587,212	65,432,212
Total assets.....	91,154,236	86,098,945
Liabilities:		
Current liabilities (excluding debt).....	1,362,085	1,865,161
Noncurrent liabilities (excluding debt).....	235,000	192,000
Current debt.....	5,345,892	6,931,580
Noncurrent debt.....	27,295,306	20,858,197
Total liabilities.....	34,238,283	29,846,938
Net Assets:		
Capital assets net of related debt.....	46,387,305	43,348,130
Unrestricted.....	10,528,648	12,903,877
Total net assets.....	\$ 56,915,953	\$ 56,252,007

Business-type water net assets of \$30,078,806 (78%) represent the investment in capital assets while \$8,433,941 (22%) is unrestricted.

Business-type sewer net assets of \$8,417,903 (46%) represent the investment in capital assets while \$9,985,303 (54%) is unrestricted.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities

The governmental expenses totaled \$113,849,035 of which \$43,278,338 (38%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$86,075,147, primarily coming from property taxes, motor vehicle excise, non-restricted state aid and other miscellaneous charges.

The governmental net assets increased by \$16,629,499 during the current fiscal year which is primarily due to the Commonwealth of Massachusetts approving a capital grant for completed school construction of approximately \$17,801,000 that is scheduled to be received in FY2005 and the use of free cash voted to fund the Town's operating budget.

	Governmental Activities	
	FY04	FY03
Program revenues:		
Charges for services.....	\$ 8,466,748	\$ 9,948,627
Operating grants and contributions.....	15,988,620	15,773,665
Capital grants and contributions.....	18,822,970	674,243
General Revenues:		
Real estate and personal property taxes.....	78,018,623	74,916,769
Motor vehicle and other excise taxes.....	5,159,554	5,624,190
Nonrestricted grants.....	1,704,378	1,845,728
Unrestricted investment income.....	369,542	368,581
Other revenues.....	823,050	1,205,969
Total revenues.....	129,353,485	110,357,772
Expenses:		
General Government.....	5,148,444	4,894,583
Public Safety.....	15,982,099	16,117,118
Education.....	66,646,971	66,227,505
Public Works.....	7,651,023	8,171,057
Plant and facilities.....	6,419,978	6,211,874
Community development.....	1,713,057	1,636,558
Human Services.....	2,627,523	2,659,822
Library.....	3,335,680	3,095,343
Interest.....	2,953,651	3,228,511
State and county charges.....	1,370,609	1,363,260
Total expenses.....	113,849,035	113,605,631
Transfers.....	1,125,049	1,189,862
Change in net assets.....	\$ 16,629,499	\$ (2,057,997)

Business-type Activities

There was an increase of \$663,946 in net assets reported in connection with the Town's business-type activities. The \$1,241,405 increase in net assets related to the Sewer Department's operations relates to \$1,415,000 in fiscal 2004 special assessment revenue. The \$(577,459) decrease in the net assets related to the Water Department's operations relates to the loss from operations where prior net assets were used to fund current operations.

	Business-type Activities	
	FY04	FY03
Program revenues:		
Charges for services.....	\$ 10,007,596	\$ 12,726,571
Capital grants and contributions.....	21,495	-
General Revenues:		
Unrestricted investment income.....	54,871	99,828
Total revenues.....	10,083,962	12,826,399
Expenses:		
Water.....	5,180,484	4,938,649
Sewer.....	3,114,483	2,850,949
Total expenses.....	8,294,967	7,789,598
Transfers.....	(1,125,049)	(1,189,862)
Change in net assets.....	\$ 663,946	\$ 3,846,939

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$20,936,340, of which \$10,778,372 is for the general fund and \$10,157,968 for Nonmajor governmental funds. Cumulatively there was a decrease of \$4,531,828 in fund balances from the prior year. The General Fund had a decrease of \$(3,027,217) that primarily resulted from the use of approximately \$1,500,000 of free cash to balance the fiscal 2004 operating budget, a \$500,000 reduction in recording the investment in joint venture, \$300,000 in recording other liabilities and a \$300,000 revenue shortfall.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4,212,128, while total fund balance was \$10,778,372. Reservation of Fund Balance for Encumbrances and Continuing Appropriations totaled \$2,278,232; \$1,007,648 was designated for amounts voted to be used in FY05 and \$3,280,364 for Joint Ventures relating to the Town's participation in the Northeast Solid Waste Committee. Unreserved fund balance represents 4% of total general fund expenditures, while total fund balance represents 10% of that same amount.

General Fund Budgetary Highlights

The \$331,000 increase between the original budget and the final amended budget was primarily due to a \$300,000 transfer to the employee compensation fund and reserve fund transfers to the sewer and water funds.

Capital Asset and Debt Administration

In conjunction with the annual operating budget, the Town annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The Town of Andover maintains an Aaa Bond Rating with Moody's Investors Service. The Town continues to maintain strong market access for both note and bond sales. Outstanding long-term debt of the general government, as of June 30, 2004, totaled \$81,471,803, of which \$62,292,813 is related to school projects and \$11,471,990 is for public safety projects, leaving a balance of \$7,707,000 for other CIP related projects.

The Town issued \$3,717,000 of long-term bonds payable to fund asbestos removal at the West Elementary school as well as school and other Town building renovations projects.

The Commonwealth of Massachusetts is obligated to provide school construction grants for approved school projects. One form of the grants is paid annually to support future interest expense on school construction related long-term debt and the construction costs funded by that debt. At June 30, 2004 the Town is scheduled to receive \$4,188,000 of future interest grants and \$19,879,000 of capital grants. The payment schedule by the Commonwealth is structured to match the debt service expenditures.

In fiscal 2004, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Accordingly, the Town of Andover will now receive a lump-sum payment for the state share of school construction costs. The Town has recognized in FY2004 an approved capital grant that the Commonwealth has scheduled a payment in FY2005 of approximately \$17,801,000. The Town will use the funds to paydown a two year bond anticipation note outstanding at June 30, 2004.

The Town has \$1,400,000 in governmental and \$2,500,000 in enterprise bond anticipation notes outstanding at year-end and due on 12/10/04 with an interest rate of 2.35%.

The Town issued \$2,983,000 and \$6,300,000 of long-term bonds payable for water and sewer construction projects in fiscal 2004. The water and sewer enterprise funds have \$9,437,198 and \$20,704,000, respectively of outstanding long-term debt at year-end that is fully supported by rates and does not rely on a general fund subsidy.

Major capital events during the current fiscal year include the following:

- A \$12,500,000 state of the art public safety center was opened in fiscal 2004.
- Sewer infrastructure additions of \$8,500,000 were completed in fiscal 2004.

Please refer to the notes for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Andover's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Town Offices, 36 Bartlet Street, Andover, Massachusetts 01810.

Basic Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and short-term investments.....	\$ 18,009,033	\$ 10,107,394	\$ 28,116,427
Investments.....	4,839,413	-	4,839,413
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,301,231	-	1,301,231
Tax liens.....	631,879	-	631,879
Motor vehicle and other excise taxes.....	642,612	-	642,612
User fees.....	-	4,353,901	4,353,901
Departmental and other.....	364,519	-	364,519
Special assessments.....	-	12,534	12,534
Intergovernmental.....	21,400,214	-	21,400,214
Tax foreclosures.....	271,500	-	271,500
Investment in joint venture.....	3,280,364	-	3,280,364
Working capital deposit.....	376,400	-	376,400
Deferred charges on refunding.....	169,544	14,877	184,421
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	80,280	-	80,280
Intergovernmental.....	18,670,296	-	18,670,296
Special assessments.....	-	3,988,677	3,988,677
Deferred charges on refunding.....	1,021,586	89,641	1,111,227
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	23,167,473	1,450,900	24,618,373
Depreciable.....	106,364,134	71,136,312	177,500,446
TOTAL ASSETS.....	200,590,478	91,154,236	291,744,714
LIABILITIES			
CURRENT:			
Warrants payable.....	2,004,806	1,103,344	3,108,150
Accrued payroll.....	1,546,255	20,505	1,566,760
Health claims payable.....	439,000	-	439,000
Tax refunds payable.....	102,077	-	102,077
Accrued interest.....	239,320	122,469	361,789
Other liabilities.....	453,546	6,767	460,313
Compensated absences.....	1,065,000	109,000	1,174,000
Workers' compensation.....	291,000	-	291,000
Unamortized premium on bonds and notes payable....	180,638	-	180,638
Bonds and notes payable.....	29,082,107	5,345,892	34,427,999
NONCURRENT:			
Compensated absences.....	3,088,000	235,000	3,323,000
Landfill closure.....	2,640,000	-	2,640,000
Bonds and notes payable.....	53,789,696	27,295,306	81,085,002
TOTAL LIABILITIES.....	94,921,445	34,238,283	129,159,728
NET ASSETS			
Invested in capital assets, net of related debt.....	89,679,889	46,387,305	136,067,194
Restricted for:			
Capital projects.....	3,636,212	-	3,636,212
Permanent funds:			
Expendable.....	413,250	-	413,250
Nonexpendable.....	692,942	-	692,942
Other purposes.....	2,531,838	-	2,531,838
Unrestricted.....	8,714,902	10,528,648	19,243,550
TOTAL NET ASSETS.....	\$ 105,669,033	\$ 56,915,953	\$ 162,584,986

The accompanying notes are an integral part of this audited financial statement.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 5,148,444	\$ 936,442	\$ 81,195	\$ -	\$ (4,130,807)
Public safety.....	15,982,099	3,601,991	389,152	-	(11,990,956)
Education.....	66,646,971	2,631,861	13,537,906	17,800,725	(32,676,479)
Public works.....	7,651,023	55,231	387,405	1,022,245	(6,186,142)
Plant and facilities.....	6,419,978	-	150,253	-	(6,269,725)
Community development.....	1,713,057	-	-	-	(1,713,057)
Community services.....	2,627,523	1,232,672	172,201	-	(1,222,650)
Library.....	3,335,680	8,551	521,344	-	(2,805,785)
Interest.....	2,953,651	-	749,164	-	(2,204,487)
State and county charges.....	1,370,609	-	-	-	(1,370,609)
Total Governmental Activities.....	113,849,035	8,466,748	15,988,620	18,822,970	(70,570,697)
<i>Business-Type Activities:</i>					
Water.....	5,180,484	5,466,703	-	-	286,219
Sewer.....	3,114,483	4,540,893	-	21,495	1,447,905
Total Business-Type Activities.....	8,294,967	10,007,596	-	21,495	1,734,124
Total Primary Government.....	\$ 122,144,002	\$ 18,474,344	\$ 15,988,620	\$ 18,844,465	\$ (68,836,573)

The accompanying notes are an integral part of this audited financial statement.

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ <u>(70,570,697)</u>	\$ <u>1,734,124</u>	\$ <u>(68,836,573)</u>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	78,018,623	-	78,018,623
Tax liens.....	156,432	-	156,432
Motor vehicle excise taxes.....	4,449,959	-	4,449,959
Hotel/motel tax.....	709,595	-	709,595
Penalties and interest on taxes.....	265,747	-	265,747
Grants and contributions not restricted to specific programs.....	1,704,378	-	1,704,378
Unrestricted investment income.....	369,542	54,871	424,413
Miscellaneous.....	400,871	-	400,871
<i>Transfers, net</i>	<u>1,125,049</u>	<u>(1,125,049)</u>	<u>-</u>
Total general revenues and transfers.....	<u>87,200,196</u>	<u>(1,070,178)</u>	<u>86,130,018</u>
Change in net assets.....	16,629,499	663,946	17,293,445
<i>Net Assets:</i>			
Beginning of year.....	<u>89,039,534</u>	<u>56,252,007</u>	<u>145,291,541</u>
End of year.....	\$ <u><u>105,669,033</u></u>	\$ <u><u>56,915,953</u></u>	\$ <u><u>162,584,986</u></u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2004

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and short-term investments.....	\$ 7,646,945	\$ 9,818,265	\$ 17,465,210
Investments.....	2,486,910	2,352,503	4,839,413
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	1,301,231	-	1,301,231
Real estate tax deferrals.....	80,280	-	80,280
Tax liens.....	631,879	-	631,879
Motor vehicle and other excise taxes.....	642,612	-	642,612
Departmental and other.....	364,519	-	364,519
Intergovernmental.....	37,716,692	2,353,818	40,070,510
Due from other funds.....	83,563	-	83,563
Tax foreclosures.....	271,500	-	271,500
Investment in joint venture.....	3,280,364	-	3,280,364
TOTAL ASSETS.....	\$ 54,506,495	\$ 14,524,586	\$ 69,031,081
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 855,891	\$ 1,148,914	\$ 2,004,805
Accrued payroll.....	1,460,594	85,661	1,546,255
Tax refunds payable.....	102,077	-	102,077
Accrued interest on short-term debt.....	1,826	-	1,826
Other liabilities.....	453,546	-	453,546
Deferred revenues.....	40,854,189	1,648,480	42,502,669
Due to other funds.....	-	83,563	83,563
Notes payable.....	-	1,400,000	1,400,000
TOTAL LIABILITIES.....	43,728,123	4,366,618	48,094,741
FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	2,278,232	-	2,278,232
Perpetual permanent funds.....	-	692,942	692,942
Unreserved:			
Designated for investment in joint venture.....	3,280,364	-	3,280,364
Designated for subsequent year's expenditures.....	1,007,648	-	1,007,648
Undesignated, reported in:			
General fund.....	4,212,128	-	4,212,128
Special revenue funds.....	-	5,415,564	5,415,564
Capital projects funds.....	-	3,636,212	3,636,212
Permanent funds.....	-	413,250	413,250
TOTAL FUND BALANCES.....	10,778,372	10,157,968	20,936,340
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 54,506,495	\$ 14,524,586	\$ 69,031,081

The accompanying notes are an integral part of this audited financial statement.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

FISCAL YEAR ENDED JUNE 30, 2004

Total governmental fund balances.....	\$ 20,936,340
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	129,531,607
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	42,502,669
Internal service funds are used by management to account for unemployment, health insurance, workers' compensation and liability insurance activities. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....	190,223
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(237,495)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds Bonds and notes payable..... (81,471,803) Landfill closure..... (2,640,000) Compensated absences..... <u>(4,153,000)</u>	
Net effect of reporting long-term liabilities.....	(88,264,803)
In the statement of activities, material premiums are amortized over the lives of bonds and notes payable.....	(180,638)
In the statement of activities, deferred losses are reported for refundings of debt, which are amortized over the shorter of the remaining life of the refunding bonds or refunded bonds. In governmental funds, defeasances of debt are expensed when the refunding bonds are issued.....	<u>1,191,130</u>
Net assets of governmental activities.....	<u>\$ 105,669,033</u>

The accompanying notes are an integral part of this audited financial statement.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2004

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 77,761,654	\$ -	\$ 77,761,654
Tax liens.....	169,816	-	169,816
Motor vehicle excise taxes.....	4,361,901	-	4,361,901
Hotel/motel tax.....	712,821	-	712,821
Penalties and interest on taxes.....	265,747	-	265,747
Licenses and permits.....	1,464,509	-	1,464,509
Intergovernmental.....	15,291,416	4,353,786	19,645,202
Departmental and other.....	2,746,270	4,679,417	7,425,687
Contributions.....	-	32,773	32,773
Investment income.....	233,798	232,568	466,366
TOTAL REVENUES.....	103,007,932	9,298,544	112,306,476
EXPENDITURES:			
Current:			
General government.....	3,189,193	244,395	3,433,588
Public safety.....	12,069,147	1,446,619	13,515,766
Education.....	47,023,679	4,431,918	51,455,597
Public works.....	5,617,043	1,349,466	6,966,509
Plant and facilities.....	5,799,639	69,900	5,869,539
Community development.....	1,386,635	89,125	1,475,760
Community services.....	1,697,626	607,969	2,305,595
Library.....	2,446,988	106,953	2,553,941
Pension benefits.....	9,537,132	-	9,537,132
Property and liability insurance.....	795,879	-	795,879
Employee benefits.....	7,625,000	-	7,625,000
State and county charges.....	1,370,609	-	1,370,609
Capital outlay.....	-	6,059,724	6,059,724
Debt service:			
Principal.....	5,728,420	-	5,728,420
Interest.....	2,987,294	-	2,987,294
TOTAL EXPENDITURES.....	107,274,284	14,406,069	121,680,353
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	(4,266,352)	(5,107,525)	(9,373,877)
OTHER FINANCING SOURCES (USES):			
Proceeds from bonds and notes.....	-	3,717,000	3,717,000
Transfers in.....	1,600,128	411,713	2,011,841
Transfers out.....	(360,993)	(525,799)	(886,792)
TOTAL OTHER FINANCING SOURCES (USES).....	1,239,135	3,602,914	4,842,049
NET CHANGE IN FUND BALANCES.....	(3,027,217)	(1,504,611)	(4,531,828)
FUND BALANCES AT BEGINNING OF YEAR.....	13,805,589	11,662,579	25,468,168
FUND BALANCES AT END OF YEAR.....	\$ 10,778,372	\$ 10,157,968	\$ 20,936,340

The accompanying notes are an integral part of this audited financial statement.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds.....	\$	(4,531,828)
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay.....	7,150,756	
Depreciation expense.....	<u>(5,284,635)</u>	
Net effect of reporting capital assets.....		1,866,121

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....

17,049,427

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Proceeds from bonds and notes.....	(3,717,000)	
Debt service principal payments.....	<u>5,728,421</u>	
Net effect of reporting long-term debt.....		2,011,421

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	(254,800)	
Net change in accrued interest on long-term debt.....	8,157	
Net change in landfill closure liability.....	180,000	
Amortization of premium on bonds and notes payable.....	233,573	
Amortization of deferred charge on refunding.....	<u>(208,088)</u>	
Net effect of recording long-term liabilities and amortizing deferred losses.....		(41,158)

Internal service funds are used by management to account for health insurance and workers' compensation activities.

The net activity of internal service funds is reported with Governmental Activities.....		<u>275,516</u>
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Change in net assets of governmental activities.....	\$	<u><u>16,629,499</u></u>
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The accompanying notes are an integral part of this audited financial statement.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Sewer	Water	Total	
ASSETS				
CURRENT:				
Cash and short-term investments.....	\$ 1,719,349	\$ 8,388,045	\$ 10,107,394	\$ 543,823
Receivables, net of allowance for uncollectibles:				
User fees.....	1,373,810	2,980,091	4,353,901	-
Special assessments.....	12,534	-	12,534	-
Working capital deposit.....	-	-	-	376,400
Deferred charges on refunding.....	-	14,877	14,877	-
Total current assets.....	3,105,693	11,383,013	14,488,706	920,223
NONCURRENT:				
Receivables, net of allowance for uncollectibles:				
Special assessments.....	3,988,677	-	3,988,677	-
Deferred charges on refunding.....	-	89,641	89,641	-
Capital assets, net of accumulated depreciation.....	35,128,720	37,458,492	72,587,212	-
Total noncurrent assets.....	39,117,397	37,548,133	76,665,530	-
TOTAL ASSETS.....	42,223,090	48,931,146	91,154,236	920,223
LIABILITIES				
CURRENT:				
Warrants payable.....	984,706	118,638	1,103,344	-
Accrued payroll.....	3,503	17,002	20,505	-
Health claims payable.....	-	-	-	439,000
Accrued interest.....	64,908	57,561	122,469	-
Other liabilities.....	6,767	-	6,767	-
Compensated absences.....	13,000	96,000	109,000	-
Workers' compensation.....	-	-	-	291,000
Bonds and notes payable.....	3,605,000	1,740,892	5,345,892	-
Total current liabilities.....	4,677,884	2,030,093	6,707,977	730,000
NONCURRENT:				
Compensated absences.....	43,000	192,000	235,000	-
Bonds and notes payable.....	19,099,000	8,196,306	27,295,306	-
Total noncurrent liabilities.....	19,142,000	8,388,306	27,530,306	-
TOTAL LIABILITIES.....	23,819,884	10,418,399	34,238,283	730,000
NET ASSETS				
Invested in capital assets, net of related debt.....	8,417,903	30,078,806	38,496,709	-
Unrestricted.....	9,985,303	8,433,941	18,419,244	190,223
TOTAL NET ASSETS.....	\$ 18,403,206	\$ 38,512,747	\$ 56,915,953	\$ 190,223

The accompanying notes are an integral part of this audited financial statement.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Sewer	Water	Total	
OPERATING REVENUES:				
Employee contributions	\$ -	\$ -	\$ -	\$ 2,922,709
Employer contributions	-	-	-	7,383,458
Charges for services	3,125,887	5,466,703	8,592,590	-
Other.....	1,415,006	-	1,415,006	-
TOTAL OPERATING REVENUES	4,540,893	5,466,703	10,007,596	10,306,167
OPERATING EXPENSES:				
Cost of services and administration	1,571,776	3,257,302	4,829,078	-
Depreciation.....	774,312	1,572,611	2,346,923	-
Property and liability insurance.....	-	-	-	1,648
Employee benefits	-	-	-	10,040,457
TOTAL OPERATING EXPENSES	2,346,088	4,829,913	7,176,001	10,042,105
OPERATING INCOME (LOSS).....	2,194,805	636,790	2,831,595	264,062
NONOPERATING REVENUES (EXPENSES):				
Investment income.....	5,910	48,961	54,871	11,453
Interest expense.....	(768,395)	(350,571)	(1,118,966)	-
Intergovernmental.....	21,495	-	21,495	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(740,990)	(301,610)	(1,042,600)	11,453
INCOME (LOSS) BEFORE OPERATING TRANSFERS.....	1,453,815	335,180	1,788,995	275,515
OPERATING TRANSFERS:				
Transfers in.....	3,885	18,915	22,800	-
Transfers out.....	(216,295)	(931,554)	(1,147,849)	-
TOTAL OPERATING TRANSFERS.....	(212,410)	(912,639)	(1,125,049)	-
CHANGE IN NET ASSETS.....	1,241,405	(577,459)	663,946	275,515
NET ASSETS AT BEGINNING OF YEAR.....	17,161,801	39,090,206	56,252,007	(85,292)
NET ASSETS AT END OF YEAR.....	\$ 18,403,206	\$ 38,512,747	\$ 56,915,953	\$ 190,223

The accompanying notes are an integral part of this audited financial statement.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2004

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Sewer	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users.....	\$ 3,524,607	\$ 5,810,763	\$ 9,335,370	\$ 2,922,708
Receipts from interfund services provided.....	-	-	-	7,383,458
Payments to vendors.....	(1,152,575)	(2,273,013)	(3,425,588)	(1,648)
Payments to employees.....	(336,920)	(1,515,630)	(1,852,550)	(74,044)
Payments for interfund services used.....	-	-	-	(10,148,041)
NET CASH FROM OPERATING ACTIVITIES.....	2,035,112	2,022,120	4,057,232	82,433
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in.....	3,885	18,915	22,800	-
Transfers out.....	(216,295)	(931,554)	(1,147,849)	-
Intergovernmental.....	21,495	-	21,495	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(190,915)	(912,639)	(1,103,554)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from the issuance of bonds and notes.....	8,300,000	3,483,000	11,783,000	-
Acquisition and construction of capital assets.....	(8,617,783)	(884,141)	(9,501,924)	-
Principal payments on bonds and notes.....	(4,860,000)	(2,071,579)	(6,931,579)	-
Interest expense.....	(776,662)	(335,060)	(1,111,722)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(5,954,445)	192,220	(5,762,225)	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income.....	5,910	48,961	54,871	11,453
NET CASH FROM INVESTING ACTIVITIES.....	5,910	48,961	54,871	11,453
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	(4,104,338)	1,350,662	(2,753,676)	93,886
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....	5,823,687	7,037,383	12,861,070	449,937
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....	\$ 1,719,349	\$ 8,388,045	\$ 10,107,394	\$ 543,823
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:				
Operating income (loss).....	\$ 2,194,805	\$ 636,790	\$ 2,831,595	\$ 264,062
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	774,312	1,572,611	2,346,923	-
Changes in assets and liabilities:				
User fees.....	(16,831)	344,060	327,229	-
Special assessments.....	(999,455)	-	(999,455)	-
Working capital deposit.....	-	-	-	(4,800)
Warrants payable.....	59,295	(532,062)	(472,767)	(265,759)
Accrued payroll.....	(2,354)	(18,279)	(20,633)	(1,070)
Health claims payable.....	-	-	-	8,000
Other liabilities.....	340	-	340	-
Accrued compensated absences.....	25,000	19,000	44,000	-
Workers' compensation.....	-	-	-	82,000
Total adjustments.....	(159,693)	1,385,330	1,225,637	(181,629)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 2,035,112	\$ 2,022,120	\$ 4,057,232	\$ 82,433

The accompanying notes are an integral part of this audited financial statement.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2004

	Pension Trust Fund (as of December 31, 2003)	Private Purpose Trust Funds	Agency Funds
ASSETS			
CURRENT:			
Cash and short-term investments.....	\$ 3,514,593	\$ 843,373	\$ 378,206
Investments.....	68,180,402	252,070	20,950
Interest and dividends.....	408,177	-	-
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	1,990,273	-	-
TOTAL ASSETS	74,093,445	1,095,443	399,156
LIABILITIES			
Warrants payable.....	470,803	-	-
Liabilities due depositors.....	-	-	399,156
TOTAL LIABILITIES	470,803	-	399,156
NET ASSETS			
Held in trust for pension benefits and other purposes.....	\$ <u>73,622,642</u>	\$ <u>1,095,443</u>	\$ <u>-</u>

The accompanying notes are an integral part of this audited financial statement.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2004

	Pension Trust Fund (as of December 31, 2003)	Private Purpose Trust Funds
ADDITIONS:		
Contributions:		
Employer.....	\$ 3,623,802	\$ -
Employee.....	2,415,348	-
Private donations.....	-	549
Total contributions.....	6,039,150	549
Net investment income (loss):		
Net change in fair value of investments.....	7,402,545	-
Interest.....	2,112,075	155,564
Total investment income (loss).....	9,514,620	155,564
Less: investment expense.....	(211,036)	-
Net investment income (loss).....	9,303,584	155,564
Intergovernmental.....	97,241	-
Transfers from other systems.....	170,344	-
TOTAL ADDITIONS.....	15,610,319	156,113
DEDUCTIONS:		
Administration.....	78,840	8,384
Transfers to other systems.....	237,128	-
Retirement benefits and refunds.....	5,231,463	-
Educational scholarships.....	-	26,283
TOTAL DEDUCTIONS.....	5,547,431	34,667
CHANGE IN NET ASSETS.....	10,062,888	121,446
NET ASSETS AT BEGINNING OF YEAR.....	63,559,754	973,997
NET ASSETS AT END OF YEAR.....	\$ 73,622,642	\$ 1,095,443

The accompanying notes are an integral part of this audited financial statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Andover, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected Board of Selectmen (the Board).

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Blended Component Units – Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town. The following component unit is blended within the primary government:

In the Fiduciary Funds:

- (1) The Andover Contributory Retirement System (the System) was established to provide retirement benefits to Town employees, the Town Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the Town Accountant (ex-officio), two members elected by the System's participants, one member appointed by the Town Manager and one member appointed by the Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

Availability of Financial Information for Component Units

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 36 Bartlet Street, Andover, Massachusetts 01810.

Availability of Financial Information for Joint Ventures

Joint Ventures – The Town is a member of the North East Solid Waste Committee (NESWC), a joint venture with 23 communities organized to represent its members in all matters related with solid waste disposal at a regional waste-to-energy facility located in North Andover, Massachusetts. In accordance with a depository agreement, NESWC was granted control over various funds received from contract communities. As of June 30, 2004, the Town's equity interest in the operation of NESWC is \$3,280,364 (See Note 11 for additional information).

Complete financial statements for NESWC can be obtained directly from their administrative office located at 3 Burlington Woods Park, Burlington, Massachusetts 01803.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and water and sewer enterprise fund. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *new middle and elementary schools fund* is used to account for financial resources used to construct the new middle and elementary school facilities.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise Funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary funds are reported:

The *water enterprise fund* is used to account for the water activities.

The *sewer enterprise fund* is used to account for the sewer activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to active employees' and retirees' health insurance, unemployment compensation, workers' compensation and general liability.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments. The Town's educational scholarships are accounted for in this fund.

The *agency fund* is used to account for assets held in a purely custodial capacity.

Government-Wide and Fund Financial Statements

For the government-wide financial statements, and proprietary and fiduciary fund accounting, all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes, Tax Liens and Tax Foreclosures

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate tax liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Tax liens may be subject to a foreclosure if the tax liens are not paid in accordance with the period required by the law (M.G.L. Ch.60, §50). Foreclosure proceedings are processed by the Treasurer or other tax lien custodian. Foreclosed properties can then be sold through advertised public auction or held for use by the Town.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle Excise

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Water and Sewer User Fees

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water and Sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables consist primarily of police and fire details and are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories***Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

H. Capital Assets***Government-Wide and Proprietary Fund Financial Statements***

Capital assets, which include land, land improvements, buildings, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	5-50
Buildings.....	5-50
Machinery and equipment.....	3-20
Infrastructure.....	10-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

I. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

J. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

K. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

L. Net Assets and Fund Equity*Government-Wide Financial Statements (Net Assets)*

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been “restricted for” the following:

“Permanent funds - expendable” represents amounts held in trust for which the expenditures are restricted by various trust agreements.

“Permanent funds - nonexpendable” represents amounts held in trust for which only investment earnings may be expended.

“Other specific purposes” represents restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been “reserved for” the following:

“Encumbrances and continuing appropriations” represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“Perpetual permanent funds” represents amounts held in trust for which only investment earnings may be expended.

Fund balances have been “designated for” the following:

“Investment in joint venture” represents the Town’s equity interest in the NESWC.

“Subsequent year’s expenditures” represents amounts appropriated for the fiscal year 2004 operating budget.

M. Long-term debt*Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

N. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

O. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

P. Post Retirement Benefits*Government-Wide and Fund Financial Statements*

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording its share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2004, this expenditure totaled approximately \$1,748,000. There were approximately 350 participants eligible to receive benefits at June 30, 2004.

The Commonwealth of Massachusetts administers a health insurance plan for all retired teachers of the Commonwealth. The cost of providing that benefit is assessed to each community annually. For the fiscal year ending June 30, 2004 this expense/expenditure amounted to \$1,098,438. The number of participants covered is not provided by the Commonwealth.

Q. Individual Fund Deficits

Several individual fund deficits exist at June 30, 2004, within the Special Revenue and Capital Projects Funds. These deficits will be funded through grants, available fund balance and bond proceeds during fiscal year 2005.

R. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

S. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Short-term Investments". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). In addition, there are various restrictions limiting the amount and length of deposits and investments.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Short-term investments and investments are classified as to collateral risk into the following three categories:

- Category 1: Insured or registered, or securities held by the Town or its agent in the Town's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Town's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the Town's name.

At fiscal year-end, the carrying amount of deposits totaled \$22,614,777 and the bank balance totaled \$26,818,262. Of the bank balance, \$727,345 was covered by Federal Depository Insurance and \$26,090,917 was uninsured and uncollateralized.

At December 31, 2003, the carrying amount of deposits for the System totaled \$989,041 and the bank balance of \$1,124,129 was covered by Federal Depository Insurance.

The following details the carrying amount of cash and short-term investments and investments as reported in the basic financial statements at June 30, 2004:

	Cash and Short-term Investments	Investments	Total
Cash balances (excluding the System) at June 30, 2004:			
Checking, savings and NOW accounts.....	\$ 17,959,969	\$ -	\$ 17,959,969
Certificates of deposit.....	5,573,817	-	5,573,817
Money market deposits.....	833,659	-	833,659
Total carrying amount of cash.....	24,367,445	-	24,367,445
<u>Investments not subject to categorization:</u>			
MMDT.....	1,199,901	-	1,199,901
Mutual funds.....	1,036,135	-	1,036,135
Money market mutual funds.....	2,734,525	-	2,734,525
<u>Investments subject to categorization (all Category 3):</u>			
U.S. government securities.....	-	4,903,038	4,903,038
Equity securities.....	-	209,395	209,395
Total investments.....	4,970,561	5,112,433	10,082,994
Total cash and short-term investments and investments of the Town at June 30, 2004.....	29,338,006	5,112,433	34,450,439
System cash balances at December 31, 2003:			
Checking, savings and NOW accounts.....	989,041	-	989,041
Total carrying amount of cash.....	989,041	-	989,041
<u>Investments not subject to categorization:</u>			
MMDT.....	1,298,929	-	1,298,929
Money market mutual funds.....	1,226,623	-	1,226,623
<u>Investments subject to categorization (all Category 3):</u>			
U.S. government securities.....	-	10,284,136	10,284,136
Equity securities.....	-	41,378,855	41,378,855
Fixed income securities.....	-	16,517,411	16,517,411
Total investments.....	2,525,552	68,180,402	70,705,954
Total cash and short-term investments and investments of the System at December 31, 2003.....	3,514,593	68,180,402	71,694,995
Total cash and short-term investments and investments as reported on the combined balance sheet.....	\$ 32,852,599	\$ 73,292,835	\$ 106,145,434

NOTE 3 – RECEIVABLES

At June 30, 2004, receivables for the individual major, non-major governmental funds and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,301,231	\$ -	\$ 1,301,231
Real estate tax deferrals.....	80,280	-	80,280
Tax liens.....	631,879	-	631,879
Motor vehicle and other excise taxes.....	1,046,275	(403,663)	642,612
Departmental and other.....	773,088	(408,569)	364,519
Intergovernmental.....	40,070,510	-	40,070,510
Total.....	<u>\$ 43,903,263</u>	<u>\$ (812,232)</u>	<u>\$ 43,091,031</u>

At June 30, 2004, receivables for the water and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Sewer user fees.....	\$ 1,373,810	\$ -	\$ 1,373,810
Water user fees.....	2,980,091	-	2,980,091
Special assessments.....	4,001,211	-	4,001,211
	<u>\$ 8,355,112</u>	<u>\$ -</u>	<u>\$ 8,355,112</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 1,257,511	\$ -	\$ 1,257,511
Tax liens.....	631,879	-	631,879
Tax foreclosure.....	271,500	-	271,500
Motor vehicle and other excise.....	642,612	-	642,612
Departmental.....	364,519	-	364,519
Intergovernmental.....	37,686,168	1,648,480	39,334,648
Total.....	<u>\$ 40,854,189</u>	<u>\$ 1,648,480</u>	<u>\$ 42,502,669</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land.....	\$ 22,506,525	\$ 193,115	\$ -	\$ 22,699,640
Construction in progress.....	9,812,606	3,394,110	(12,738,883)	467,833
Total capital assets not being depreciated....	32,319,131	3,587,225	(12,738,883)	23,167,473
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	119,682,051	14,725,284	-	134,407,335
Machinery and equipment.....	3,186,147	303,573	-	3,489,720
Land improvements.....	2,064,577	48,361	-	2,112,938
Infrastructure.....	28,487,237	759,798	-	29,247,035
Vehicles.....	4,640,822	135,157	-	4,775,979
Library books.....	3,498,236	330,241	-	3,828,477
Total capital assets being depreciated.....	161,559,070	16,302,414	-	177,861,484
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(43,095,301)	(3,396,748)	-	(46,492,049)
Machinery and equipment.....	(1,290,639)	(405,253)	-	(1,695,892)
Land improvements.....	(984,619)	(83,941)	-	(1,068,560)
Infrastructure.....	(16,371,387)	(666,820)	-	(17,038,207)
Vehicles.....	(2,618,001)	(417,534)	-	(3,035,535)
Library books.....	(1,852,768)	(314,339)	-	(2,167,107)
Total accumulated depreciation.....	(66,212,715)	(5,284,635)	-	(71,497,350)
Total capital assets being depreciated, net.....	95,346,355	11,017,779	-	106,364,134
Total governmental activities capital assets, net.....	\$ 127,665,486	\$ 14,605,004	\$ (12,738,883)	\$ 129,531,607

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land.....	\$ 381,147	\$ -	\$ -	\$ 381,147
Construction in progress.....	436,100	633,653	-	1,069,753
Total capital assets not being depreciated....	817,247	633,653	-	1,450,900
Capital assets being depreciated:				
Buildings and building improvements.....	1,352,239	-	-	1,352,239
Machinery and equipment.....	446,169	70,363	-	516,532
Infrastructure.....	101,460,522	8,704,021	-	110,164,543
Vehicles.....	513,945	93,886	-	607,831
Total capital assets being depreciated.....	103,772,875	8,868,270	-	112,641,145
Less accumulated depreciation for:				
Buildings and building improvements.....	(629,822)	(34,582)	-	(664,404)
Machinery and equipment.....	(340,994)	(22,932)	-	(363,926)
Infrastructure.....	(37,813,139)	(2,234,548)	-	(40,047,687)
Vehicles.....	(373,955)	(54,861)	-	(428,816)
Total accumulated depreciation.....	(39,157,910)	(2,346,923)	-	(41,504,833)
Total capital assets being depreciated, net.....	64,614,965	6,521,347	-	71,136,312
Total business-type activities capital assets, net.....	\$ 65,432,212	\$ 7,155,000	\$ -	\$ 72,587,212

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government.....	\$ 413,768
Public safety.....	406,259
Education.....	2,572,356
Public works.....	958,506
Plant and facilities.....	36,119
Community development.....	692,951
Human services.....	94,848
Capital outlay.....	109,828

Total depreciation expense - governmental activities..... \$ 5,284,635

Business-Type Activities:

Water.....	\$ 1,572,611
Sewer.....	774,312

Total depreciation expense - business-type activities..... \$ 2,346,923

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances for the fiscal year ended June 30, 2004, are summarized as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental fund	\$ <u>83,563</u>

Interfund Transfers:

<u>Transfers Out:</u>	<u>Transfers In:</u>				<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Sewer Enterprise Fund</u>	<u>Water Enterprise Fund</u>	
General Fund.....	\$ -	\$ 338,193	\$ 3,885	\$ 18,915	\$ 360,993 (1)
Nonmajor Governmental Funds.....	452,279	73,520	-	-	525,799 (2)
Sewer Enterprise Fund.....	216,295	-	-	-	216,295 (3)
Water Enterprise Fund.....	931,554	-	-	-	931,554 (3)
Total.....	\$ <u>1,600,128</u>	\$ <u>411,713</u>	\$ <u>3,885</u>	\$ <u>18,915</u>	\$ <u>2,034,641</u>

(1) Represents transfers to the employee compensation fund, sewer fund, water fund and the library aid fund.

(2) Represents the transfer of other available funds and other voted transfers.

(3) Represents the transfer of indirect costs to the general fund.

NOTE 6 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2004, is as follows:

Governmental Funds				Balance at			Balance at
Type	Purpose	Rate (%)	Due Date	June 30, 2003	Renewed/ Issued	Retired/ Redeemed	June 30, 2004
BAN	Buildings.....	1.50%	12/18/03	\$ 600,000	\$ -	\$ 600,000	\$ -
BAN	School renovation.....	1.50%	12/18/03	500,000	-	500,000	-
BAN	School improvements.....	1.50%	12/18/03	600,000	-	600,000	-
BAN	Land acquisition.....	2.35%	12/10/04	-	1,000,000	-	1,000,000
BAN	Retaining wall.....	2.35%	12/10/04	-	400,000	-	400,000
Total.....				<u>\$ 1,700,000</u>	<u>\$ 1,400,000</u>	<u>\$ 1,700,000</u>	<u>\$ 1,400,000</u>

Enterprise Funds				Balance at			Balance at
Type	Purpose	Rate (%)	Due Date	June 30, 2003	Renewed/ Issued	Retired/ Redeemed	June 30, 2004
BAN	Sewer project.....	1.50%	12/18/03	\$ 3,300,000	\$ -	\$ 3,300,000	\$ -
BAN	Water treatment plant.....	1.50%	12/18/03	975,000	-	975,000	-
BAN	Water Mains.....	2.35%	12/10/04	-	2,000,000	-	2,000,000
BAN	Sewer project.....	2.35%	12/10/04	-	500,000	-	500,000
Total.....				<u>\$ 4,275,000</u>	<u>\$ 2,500,000</u>	<u>\$ 4,275,000</u>	<u>\$ 2,500,000</u>

NOTE 7 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

In order to take advantage of favorable interest rates the Town issued \$14,935,000 of General Obligation Refunding Bonds during fiscal year 2003. \$13,500,000 of general obligation bonds were defeased by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$1,521,218. This amount is recorded as deferred charges on refunding and is being amortized over the remaining-useful life of the refunded debt, which is the same as the remaining life of the defeased debt. This advance refunding was undertaken to reduce total debt service payments over a 13 year period by \$1,299,152 and resulted in an economic gain of \$1,106,000. At June 30, 2004, approximately \$13,500,000 of bonds outstanding from the advance refunding is considered defeased.

The Town issued \$21,938,000 in Commonwealth supported school construction bond anticipation notes (BANS) in fiscal 2003. The maturity date for these BANS are June 15, 2005 and therefore meet the GASB criteria for treatment as long-term debt. The Commonwealth enacted new legislation in FY2004 that will provide a grant to the Town for its approximate \$17,100,000 share of the project. The Town expects to receive the grant payment before the maturity date and use the proceeds to pay-down the BAN. The remaining amount of the BAN is expected to be converted into long-term bonds.

Details related to the outstanding indebtedness at June 30, 2004, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2003	Issued	Redeemed	Outstanding at June 30, 2004
Public safety.....	2.00 - 5.00	\$ 12,324,923	\$ -	\$ 852,933	\$ 11,471,990
School projects.....	2.00 - 5.72	63,249,300	2,435,000	3,391,487	62,292,813
Public works.....	2.85 - 5.24	1,747,000	-	476,000	1,271,000
Plant and facilities.....	3.50 - 5.00	2,760,000	1,282,000	355,000	3,687,000
Land acquisition.....	3.61 - 5.23	2,637,000	-	348,000	2,289,000
Culture and recreation.....	4.48 - 4.89	205,000	-	35,000	170,000
Total general obligation bonds payable.....		<u>82,923,223</u>	<u>3,717,000</u>	<u>5,458,420</u>	<u>81,181,803</u>
Old town hall.....	7.36	<u>560,000</u>	<u>-</u>	<u>270,000</u>	<u>290,000</u>
Total Governmental bonds payable.....		<u>\$ 83,483,223</u>	<u>\$ 3,717,000</u>	<u>\$ 5,728,420</u>	<u>\$ 81,471,803</u>

Debt service requirements for principal and interest for Governmental bonds payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2005.....	\$ 27,682,107	\$ 2,741,427	\$ 30,423,534
2006.....	5,336,731	2,040,648	7,377,379
2007.....	5,148,841	1,833,091	6,981,932
2008.....	4,997,286	1,650,213	6,647,499
2009.....	4,966,422	1,467,834	6,434,256
2010.....	4,905,721	1,287,046	6,192,767
2011.....	3,814,695	1,119,191	4,933,886
2012.....	3,855,000	970,047	4,825,047
2013.....	3,240,000	834,619	4,074,619
2014.....	3,135,000	707,401	3,842,401
2015.....	3,110,000	579,889	3,689,889
2016.....	3,085,000	450,228	3,535,228
2017.....	2,140,000	334,980	2,474,980
2018.....	1,430,000	252,289	1,682,289
2019.....	1,430,000	186,623	1,616,623
2020.....	1,185,000	125,506	1,310,506
2021.....	1,055,000	71,937	1,126,937
2022.....	605,000	31,968	636,968
2023.....	<u>350,000</u>	<u>8,750</u>	<u>358,750</u>
Totals.....	<u>\$ 81,471,803</u>	<u>\$ 16,693,687</u>	<u>\$ 98,165,490</u>

Bonds and Notes Payable Schedule – Enterprise Fund

Project	Interest Rate (%)	Outstanding at June 30, 2003	Issued	Redeemed	Outstanding at June 30, 2004
Water projects.....	2.00 - 5.61	\$ 7,550,777	\$ 2,983,000	\$ 1,096,579	\$ 9,437,198
Sewer projects.....	3.90 - 5.00	<u>15,964,000</u>	<u>6,300,000</u>	<u>1,560,000</u>	<u>20,704,000</u>
Total Enterprise bonds payable.....		<u>\$ 23,514,777</u>	<u>\$ 9,283,000</u>	<u>\$ 2,656,579</u>	<u>\$ 30,141,198</u>

Debt service requirements for principal and interest for enterprise fund bonds and notes payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2005.....	\$ 2,845,892	\$ 1,149,091	\$ 3,994,983
2006.....	2,628,270	1,045,887	3,674,157
2007.....	2,621,158	951,591	3,572,749
2008.....	2,207,713	861,790	3,069,503
2009.....	2,188,578	775,651	2,964,229
2010.....	2,064,281	696,584	2,760,865
2011.....	1,490,306	630,970	2,121,276
2012.....	1,340,000	575,834	1,915,834
2013.....	1,245,000	524,134	1,769,134
2014.....	1,125,000	476,980	1,601,980
2015.....	1,125,000	431,814	1,556,814
2016.....	1,125,000	386,079	1,511,079
2017.....	1,125,000	339,152	1,464,152
2018.....	1,125,000	290,880	1,415,880
2019.....	1,125,000	241,783	1,366,783
2020.....	1,170,000	191,037	1,361,037
2021.....	1,170,000	138,188	1,308,188
2022.....	1,170,000	84,157	1,254,157
2023.....	750,000	39,750	789,750
2024.....	<u>500,000</u>	<u>11,250</u>	<u>511,250</u>
Totals.....	<u>\$ 30,141,198</u>	<u>\$ 9,842,602</u>	<u>\$ 39,983,800</u>

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2004, approximately \$1,876,000 of such assistance was received. Approximately \$24,067,000 will be received in future fiscal years. Of this amount, approximately \$4,188,000 represents reimbursement of long-term interest costs, and approximately \$19,879,000 represents reimbursement of approved construction costs. Accordingly, a \$19,879,000 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

In fiscal 2004, the Commonwealth enacted legislation that changed the method for funding the school building assistance program. Accordingly, the Town of Andover will now receive a lump-sum payment for the state share of school construction costs. The Town expects to receive approximately \$17,801,000 in fiscal 2005 which has been recorded as an intergovernmental receivable. The Town expects to use the proceeds to pay-down bond anticipation notes.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2004, the Town had the following authorized and unissued debt:

Purpose	Amount
Culture and recreation.....	\$ 388,000
Land acquisition.....	5,000,000
Landfill.....	2,200,000
Municipal buildings.....	350,000
Public safety.....	1,430,552
Public works.....	973,500
School projects.....	23,063,000
Sewer projects.....	11,750,000
Water projects.....	2,972,000
Total.....	<u>\$ 48,127,052</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2004, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Long-Term Bonds and Notes.....	\$ 83,483,223	\$ 3,717,000	\$ (5,728,420)	\$ 81,471,803	\$ 27,682,107
Health Claims.....	431,000	1,668,000	(1,660,000)	439,000	439,000
Workers' Compensation.....	209,000	337,000	(255,000)	291,000	291,000
Compensated Absences.....	3,898,200	1,245,000	(990,200)	4,153,000	1,065,000
Landfill Closure.....	2,820,000	-	(180,000)	2,640,000	-
Total governmental activity long-term liabilities.....	<u>\$ 90,841,423</u>	<u>\$ 6,967,000</u>	<u>\$ (8,813,620)</u>	<u>\$ 88,994,803</u>	<u>\$ 29,477,107</u>
Business-Type Activities:					
Long-Term Bonds and Notes.....	\$ 23,514,777	\$ 9,283,000	\$ (2,656,579)	\$ 30,141,198	\$ 2,845,892
Compensated Absences.....	300,000	152,000	(108,000)	344,000	109,000
Total business-type activity long-term liabilities.....	<u>\$ 23,814,777</u>	<u>\$ 9,435,000</u>	<u>\$ (2,764,579)</u>	<u>\$ 30,485,198</u>	<u>\$ 2,954,892</u>

Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund's long-term liabilities are included as part of the governmental activities totals above. At fiscal year end, internal service fund accrued liabilities for health claims and workers' compensation of \$439,000 and \$291,000, respectively is included above. Except for the amounts related to the internal service funds, the governmental activities long-term liabilities are generally liquidated by the general fund.

NOTE 8 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. In addition, the Town is self-insured for damages not covered by commercial insurance.

The Town participates in premium-based health care plans for its active employees and retirees, as well as being self-insured. The Town is also self-insured for its workers' compensation and unemployment compensation activities. Settlements have not exceeded coverages for each of the past three fiscal years. These self-insured activities are accounted for in the Town's internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred.

(a) Health Insurance

Health insurance claims are administered by a third party administrator and are funded on an as needed basis from the Town's internal service fund. The estimate of Incurred But Not Reported (IBNR) claims is based on a three month claims paid average. At June 30, 2004, the amount of the liability for health insurance claims totaled \$439,000. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2003, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2003.....	\$ 522,000	\$ 1,869,000	\$ (1,960,000)	\$ 431,000
Fiscal Year 2004.....	431,000	1,668,000	(1,660,000)	439,000

(b) Workers' Compensation

The Town participates in a Retrospective Rating Plan for which the Town employs a third party administrator. Workers' compensation claims are administered by the third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type. At June 30, 2004, the amount of the liability for workers' compensation claims totaled \$291,000. Changes in the reported liability since July 1, 2003, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End
Fiscal Year 2003.....	\$ 303,000	\$ 96,000	\$ (190,000)	\$ 209,000
Fiscal Year 2004.....	209,000	337,000	(255,000)	291,000

NOTE 9 - PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Andover Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$5,909,000 for the fiscal year ended June 30, 2004, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Andover Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 36 Bartlet Street, Andover, Massachusetts 01810.

At December 31, 2003, the System's membership consists of the following:

Active members.....	761
Inactive members.....	66
Disabled members.....	37
Retirees and beneficiaries currently receiving benefits.....	<u>298</u>
Total.....	<u>1162</u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers required the Town to contribute 99%, 99% and 98%, respectively, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost - The Town's contributions to the System for the fiscal years ended June 30, 2004, 2003, and 2002 were \$3,575,130, \$3,472,421, and \$3,730,326, respectively, which equaled its required contribution for each fiscal year. At June 30, 2004, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2002, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.5% investment rate of return and projected salary increases of 6.0% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2004, was 20 years.

Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/04	\$ 81,431	\$ 104,232	\$ 22,801	78.1%	\$ 29,805	76.5%
01/01/01	69,752	86,928	17,176	80.2%	24,596	69.8%
01/01/99	59,350	76,915	17,565	77.2%	21,631	81.2%
01/01/98	48,768	71,164	22,396	68.5%	20,700	108.2%
01/01/95	25,634	47,529	21,895	53.9%	14,390	152.2%
01/01/92	20,932	38,731	17,799	54.0%	14,301	124.5%

Funding progress is reported based on the biennial actuarial valuation performed by the System, and is being accumulated on a biennial basis. The Town is responsible for approximately 99% of the unfunded liability.

NOTE 10 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the Town to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town had operated a solid waste landfill that ceased operations in 1973. The Town has reflected \$2,640,000 as the estimate of the landfill closure liability at June 30, 2004, in the government-wide financial statements governmental activities. This amount is based on estimates of what it would cost to perform all future closure and post closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 11 – COMMITMENTS

Under the terms of an agreement with the State Department of Environmental Management and Wheelabrator North Andover, Inc. (WNAI) (formerly Massachusetts RefuseTech, Inc.) the Town is unconditionally obligated to make certain payments for its portion of the costs of using a resource recovery plant based on its projected minimum tonnage of solid waste to be disposed of at the plant. The cost to the Town under the agreement totaled approximately \$1,883,000 in fiscal year 2004. The facility was financed by the issuance of bonds in the amount of approximately \$197,000,000. In the event of a facility failure, under circumstances in which WNAI is not required or is unable to pay damages, the Town's indirect share of the bonds, based on the aggregate projected minimum disposal tonnage of all participating communities, would be 6.06% of the total.

Town is in the process of reconstructing segments of its water and sewer system. Consequently, the Town has entered into contracts totaling approximately \$23,000,000 to complete the projects. Approximately \$18,800,000 has been spent on the projects through June 30, 2004.

The Town is in the process of constructing a public safety center and has entered into contracts totaling approximately \$11,300,000 to complete the projects. Approximately \$10,415,000 has been spent on the project through June 30, 2004.

NOTE 12 - CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2004, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2004, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2004.

NOTE 13 - IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2004, the following GASB pronouncements were implemented:

The GASB issued Statement #39, Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement #14. Management has determined that no additional component units were required to be presented in the basic financial statements.

Other Future GASB Pronouncements:

The GASB issued Statement #40, Deposit and Investment Risk Disclosures, an Amendment of GASB Statement #3, which is required to be implemented during fiscal year 2005. This pronouncement will only require changes to the note disclosure.

The GASB issued Statement #42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, which is required to be implemented in Fiscal 2006. Management does not believe that this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement #43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which is required to be implemented in Fiscal 2008. Since there is no legally established separate trust for the postemployment benefit plan this pronouncement will not impact the basic financial statements.

The GASB issued Statement #44, Economic Condition Reporting: The Statistical Section, which is required to be implemented in Fiscal 2006. This new GASB establishes and modifies requirements related to supplementary information presented in a statistical section. The presentation of a statistical section is not required by this pronouncement. This pronouncement will not impact the basic financial statements.

The GASB issued Statement #45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which is required to be implemented in Fiscal 2009. Management believes this pronouncement will require additional disclosure and impact the basic financial statements.

Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted Amounts				
	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 78,425,671	\$ 78,425,671	\$ 77,865,386	\$ -	\$ (560,285)
Tax liens.....	-	-	169,816	-	169,816
Motor vehicle excise taxes.....	4,567,000	4,567,000	4,361,901	-	(205,099)
Hotel/motel tax.....	862,000	862,000	712,821	-	(149,179)
Penalties and interest on taxes.....	300,000	300,000	265,747	-	(34,253)
Licenses and permits.....	1,220,000	1,220,000	1,464,509	-	244,509
Intergovernmental.....	9,143,172	9,143,172	9,382,416	-	239,244
Departmental and other.....	2,511,000	2,535,653	2,746,270	-	210,617
Investment income.....	413,000	413,000	233,798	-	(179,202)
TOTAL REVENUES.....	97,441,843	97,466,496	97,202,664	-	(263,832)
EXPENDITURES:					
Current:					
General government:					
Personal services.....	1,858,179	2,047,352	2,047,358	-	(6)
Other expenses.....	2,266,885	1,355,102	1,118,319	250,898	(14,115)
TOTAL.....	4,125,064	3,402,454	3,165,677	250,898	(14,121)
Public safety:					
Personal services.....	10,776,183	11,131,167	11,130,962	-	205
Other expenses.....	922,008	922,008	809,538	106,573	5,897
TOTAL.....	11,698,191	12,053,175	11,940,500	106,573	6,102
Education:					
Personal services.....	37,031,391	37,097,316	37,097,316	-	-
Other expenses.....	10,294,502	10,253,230	9,926,363	326,867	-
TOTAL.....	47,325,893	47,350,546	47,023,679	326,867	-
Public works:					
Personal services.....	1,414,940	1,531,520	1,524,683	-	6,837
Other expenses.....	4,069,613	3,914,613	3,516,803	309,170	88,640
TOTAL.....	5,484,553	5,446,133	5,041,486	309,170	95,477
Plant and facilities:					
Personal services.....	2,799,301	2,766,644	2,763,159	-	3,485
Other expenses.....	4,205,187	4,220,187	3,007,584	1,203,717	8,886
TOTAL.....	7,004,488	6,986,831	5,770,743	1,203,717	12,371
Community development:					
Personal services.....	1,135,087	1,279,333	1,274,869	-	4,464
Other expenses.....	140,155	140,155	97,557	12,674	29,924
TOTAL.....	1,275,242	1,419,488	1,372,426	12,674	34,388
Community services.....					
Personal services.....	586,627	1,266,964	1,246,447	-	20,517
Other expenses.....	1,061,294	481,931	431,670	38,663	11,598
TOTAL.....	1,647,921	1,748,895	1,678,117	38,663	32,115
Library:					
Personal services.....	1,708,396	1,870,079	1,870,079	-	-
Other expenses.....	567,800	567,800	545,130	22,670	-
TOTAL.....	2,276,196	2,437,879	2,415,209	22,670	-

GENERAL FUND
SCHEDULE OF REVENUES EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2004

	Budgeted Amounts				
	Original Budget	Final Budget	Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance To Final Budget
Pension benefits	3,658,024	3,658,024	3,628,132	-	29,892
Property and liability insurance	750,003	838,271	795,879	-	42,392
Employee benefits	7,475,000	7,625,000	7,625,000	-	-
State and county charges	1,399,844	1,399,844	1,370,609	-	29,235
Debt service:					
Principal	5,966,689	5,728,421	5,728,421	-	-
Interest	3,033,888	3,033,888	2,987,592	7,000	39,296
TOTAL EXPENDITURES	103,120,996	103,128,849	100,543,470	2,278,232	307,147
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,679,153)	(5,662,353)	(3,340,806)	(2,278,232)	43,315
OTHER FINANCING SOURCES (USES):					
Transfers in	1,299,327	1,540,034	1,600,128	-	60,094
Transfers out	-	(322,800)	(360,993)	-	(38,193)
TOTAL OTHER FINANCING SOURCES (USES)	1,299,327	1,217,234	1,239,135	-	21,901
NET CHANGE IN FUND BALANCE	(4,379,826)	(4,445,119)	(2,101,671)	(2,278,232)	65,216
BUDGETARY FUND BALANCE, Beginning of year	9,872,716	9,872,716	9,872,716	-	-
BUDGETARY FUND BALANCE, End of year	\$ 5,492,890	\$ 5,427,597	\$ 7,771,045	\$ (2,278,232)	\$ 65,216
See notes to required supplementary information					(Concluded)

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**1. Budgetary Information**

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting. The Town Manager presents an annual budget to the Board, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Board, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Board approval via Special Town Meeting.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the Board.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2004 approved budget authorized approximately \$103,121,000 in appropriations and other amounts to be raised. During fiscal year 2004, the Board also approved supplemental appropriations totaling approximately \$331,000.

The Town Accountant's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2004, is presented below:

Net change in fund balance - budgetary basis.....	\$ (2,101,671)
<u>Perspective difference:</u>	
Net change in recording investment in joint venture.....	(528,979)
<u>Basis of accounting differences:</u>	
Net change in recording 60-day receipts.....	(113,000)
Net change in recoding tax refunds payable.....	9,268
Net change in liabilities.....	(37,741)
Net change in recording short-term interest accrual.....	299
Net change in recording accrued payroll.....	(255,393)
Recognition of revenue for on-behalf payments.....	5,909,000
Recognition of expenditures for on-behalf payments.....	<u>(5,909,000)</u>
Net change in fund balance - GAAP basis.....	\$ <u><u>(3,027,217)</u></u>

3. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2004, actual expenditures exceeded appropriations for general government. These over-expenditures will be funded through available funds during fiscal year 2005.

Combining Statements

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Town Grants/Other Revolving Funds – This fund is used to account for the non-school related activity of revolving funds established in accordance with MGL Chapter 44, Section 53E ½ and grant funds received from state and federal governments which are designated for specific programs.

School Grants/Other Revolving Funds – This fund is used to account for the school department's revolving funds established in accordance with MGL Chapter 44, Section 53E ½ and Chapter 71 and grant funds received from state and federal governments which are designated for specific programs.

Stabilization – This fund is used to account for the accumulation of resources to provide general and/or capital reserves.

School Lunch Fund – This fund is used to account for all cafeteria activities and is funded by user charges, federal and state grants and commodities received.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Road/Drainage Projects – This fund is used to account for road and drainage projects other than state funded highway projects. These projects will be funded through the issuance of long-term bonds and notes and other available funds.

School Projects – This fund is used to account for major school capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes state grants and other available funds.

Conservation Projects – This fund is used to account for major conservation capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes and other available funds.

Municipal Buildings – This fund is used to account for major municipal building capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes and other available funds.

Public Safety Projects – This fund is used to account for major public safety capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes and other available funds.

Other Projects – This fund is used to account for smaller capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes and other available funds.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support governmental programs.

Cemetery – This fund is used to account for cemetery contributions and bequests in which the earnings may be expended for cemetery purposes.

Library Trust Funds – This fund is used to account for gifts, bequests and contributions in which the earnings may be expended for purposes specified by the donor in relation to library activities.

Town Welfare/Other Trust Funds – accounts for all non library and cemetery related contributions and bequests in which the earnings may be expended for purposes specified by the donor in relation to other Town activities.

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NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2004

<i>Special Revenue Funds</i>						
	Town Grants/ Other Revolving	School Grants/ Other Revolving	Stabilization	School Lunch		Sub-total
ASSETS						
Cash and short-term investments.....	\$ 2,013,915	\$ 827,559	\$ 38,954	\$ 284,570	\$ -	\$ 3,164,998
Investments.....	1,654,811	-	439,934	-	-	2,094,745
Receivables, net of uncollectibles:						
Intergovernmental.....	2,122,875	230,943	-	-	-	2,353,818
TOTAL ASSETS.....	\$ 5,791,601	\$ 1,058,502	\$ 478,888	\$ 284,570	\$ -	\$ 7,613,561
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Warrants payable.....	\$ 313,548	\$ 150,308	\$ -	\$ -	\$ -	\$ 463,856
Accrued payroll.....	44,580	41,081	-	-	-	85,661
Deferred revenues.....	1,648,480	-	-	-	-	1,648,480
Due to other funds.....	-	-	-	-	-	-
Notes payable.....	-	-	-	-	-	-
TOTAL LIABILITIES.....	2,006,608	191,389	-	-	-	2,197,997
FUND BALANCES:						
Unreserved:						
Special revenue funds.....	3,784,993	867,113	478,888	284,570	-	5,415,564
Capital projects funds.....	-	-	-	-	-	-
Permanent funds.....	-	-	-	-	-	-
TOTAL FUND BALANCES.....	3,784,993	867,113	478,888	284,570	-	5,415,564
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 5,791,601	\$ 1,058,502	\$ 478,888	\$ 284,570	\$ -	\$ 7,613,561

Capital Project Funds						
Road/ Drainage Projects	School Projects	Conservation	Municipal Buildings	Public Safety	Other	Sub-total
\$ 1,257,595	\$ 1,200,183	\$ 849,343	\$ 1,873,524	\$ 579,409	\$ 1,162	\$ 5,761,216
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 1,257,595</u>	<u>\$ 1,200,183</u>	<u>\$ 849,343</u>	<u>\$ 1,873,524</u>	<u>\$ 579,409</u>	<u>\$ 1,162</u>	<u>\$ 5,761,216</u>
\$ -	\$ -	\$ -	\$ 641,441	\$ -	\$ -	\$ 641,441
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	83,563	83,563
<u>400,000</u>	<u>-</u>	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,400,000</u>
<u>400,000</u>	<u>-</u>	<u>1,000,000</u>	<u>641,441</u>	<u>-</u>	<u>83,563</u>	<u>2,125,004</u>
-	-	-	-	-	-	-
857,595	1,200,183	(150,657)	1,232,083	579,409	(82,401)	3,636,212
-	-	-	-	-	-	-
<u>857,595</u>	<u>1,200,183</u>	<u>(150,657)</u>	<u>1,232,083</u>	<u>579,409</u>	<u>(82,401)</u>	<u>3,636,212</u>
<u>\$ 1,257,595</u>	<u>\$ 1,200,183</u>	<u>\$ 849,343</u>	<u>\$ 1,873,524</u>	<u>\$ 579,409</u>	<u>\$ 1,162</u>	<u>\$ 5,761,216</u>

(Continued)

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2004

	<i>Permanent Funds</i>				Total Nonmajor Governmental Funds
	Cemetery	Library	Town Welfare/ Other	Sub-total	
ASSETS					
Cash and short-term investments.....	\$ 494,618	\$ 4,973	\$ 392,460	\$ 892,051	\$ 9,818,265
Investments.....	60,336	56,174	141,248	257,758	2,352,503
Receivables, net of uncollectibles:					
Intergovernmental.....	-	-	-	-	2,353,818
TOTAL ASSETS.....	\$ 554,954	\$ 61,147	\$ 533,708	\$ 1,149,809	\$ 14,524,586
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 43,617	\$ -	\$ -	\$ 43,617	\$ 1,148,914
Accrued payroll.....	-	-	-	-	85,661
Deferred revenues.....	-	-	-	-	1,648,480
Due to other funds.....	-	-	-	-	83,563
Notes payable.....	-	-	-	-	1,400,000
TOTAL LIABILITIES.....	43,617	-	-	43,617	4,366,618
FUND BALANCES:					
Unreserved:					
Special revenue funds.....	-	-	-	-	5,415,564
Capital projects funds.....	-	-	-	-	3,636,212
Permanent funds.....	511,337	61,147	533,708	1,106,192	1,106,192
TOTAL FUND BALANCES.....	511,337	61,147	533,708	1,106,192	10,157,968
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 554,954	\$ 61,147	\$ 533,708	\$ 1,149,809	\$ 14,524,586

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NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2004

<i>Special Revenue Funds</i>					
	Town Grants/ Other Revolving	School Grants/ Other Revolving	Stabilization	School Lunch	Sub-total
REVENUES:					
Intergovernmental.....	\$ 1,727,721	\$ 2,496,654	\$ -	\$ 129,411	\$ 4,353,786
Departmental and other.....	2,994,279	719,731	-	965,407	4,679,417
Contributions.....	6,183	-	-	-	6,183
Investment income.....	161,097	-	43,116	-	204,213
TOTAL REVENUES.....	4,889,280	3,216,385	43,116	1,094,818	9,243,599
EXPENDITURES:					
General government.....	244,395	-	-	-	244,395
Public safety.....	1,427,196	19,423	-	-	1,446,619
Education.....	782,807	2,648,187	-	1,000,924	4,431,918
Public works.....	1,349,426	-	-	-	1,349,426
Plant and facilities.....	69,900	-	-	-	69,900
Community development.....	89,125	-	-	-	89,125
Human services.....	605,164	-	-	-	605,164
Library.....	106,953	-	-	-	106,953
Capital outlay.....	-	-	-	-	-
TOTAL EXPENDITURES.....	4,674,966	2,667,610	-	1,000,924	8,343,500
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	214,314	548,775	43,116	93,894	900,099
OTHER FINANCING SOURCES (USES):					
Proceeds from bonds and notes.....	-	-	-	-	-
Transfers in.....	366,066	-	-	-	366,066
Transfers out.....	(370,152)	-	-	-	(370,152)
TOTAL OTHER FINANCING SOURCES (USES).....	(4,086)	-	-	-	(4,086)
NET CHANGE IN FUND BALANCES.....	210,228	548,775	43,116	93,894	896,013
FUND BALANCES AT BEGINNING OF YEAR.....	3,574,765	318,338	435,772	190,676	4,519,551
FUND BALANCES AT END OF YEAR.....	\$ 3,784,993	\$ 867,113	\$ 478,888	\$ 284,570	\$ 5,415,564

Capital Project Funds

Road/ Drainage Projects	School Projects	Conservation	Municipal Buildings	Public Safety	Other	Sub-total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
333,616	1,919,474	197,352	635,004	2,908,918	65,360	6,059,724
333,616	1,919,474	197,352	635,004	2,908,918	65,360	6,059,724
(333,616)	(1,919,474)	(197,352)	(635,004)	(2,908,918)	(65,360)	(6,059,724)
-	2,435,000	-	1,282,000	-	-	3,717,000
45,647	-	-	-	-	-	45,647
(45,647)	-	-	-	-	-	(45,647)
-	2,435,000	-	1,282,000	-	-	3,717,000
(333,616)	515,526	(197,352)	646,996	(2,908,918)	(65,360)	(2,342,724)
1,191,211	684,657	46,695	585,087	3,488,327	(17,041)	5,978,936
\$ 857,595	\$ 1,200,183	\$ (150,657)	\$ 1,232,083	\$ 579,409	\$ (82,401)	\$ 3,636,212

(Continued)

NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2004

	<i>Permanent Funds</i>				Total Nonmajor Governmental Funds
	Cemetery	Library	Town Welfare/ Other	Sub-total	
REVENUES:					
Intergovernmental.....	\$ -	\$ -	\$ -	\$ -	\$ 4,353,786
Departmental and other.....	-	-	-	-	4,679,417
Contributions.....	24,980	1,610	-	26,590	32,773
Investment income.....	10,007	3,896	14,452	28,355	232,568
TOTAL REVENUES.....	34,987	5,506	14,452	54,945	9,298,544
EXPENDITURES:					
General government.....	-	-	-	-	244,395
Public safety.....	-	-	-	-	1,446,619
Education.....	-	-	-	-	4,431,918
Public works.....	40	-	-	40	1,349,466
Plant and facilities.....	-	-	-	-	69,900
Community development.....	-	-	-	-	89,125
Human services.....	-	-	2,805	2,805	607,969
Library.....	-	-	-	-	106,953
Capital outlay.....	-	-	-	-	6,059,724
TOTAL EXPENDITURES.....	40	-	2,805	2,845	14,406,069
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	34,947	5,506	11,647	52,100	(5,107,525)
OTHER FINANCING SOURCES (USES):					
Proceeds from bonds and notes.....	-	-	-	-	3,717,000
Transfers in.....	-	-	-	-	411,713
Transfers out.....	(110,000)	-	-	(110,000)	(525,799)
TOTAL OTHER FINANCING SOURCES (USES).....	(110,000)	-	-	(110,000)	3,602,914
NET CHANGE IN FUND BALANCES.....	(75,053)	5,506	11,647	(57,900)	(1,504,611)
FUND BALANCES AT BEGINNING OF YEAR.....	586,390	55,641	522,061	1,164,092	11,662,579
FUND BALANCES AT END OF YEAR.....	\$ 511,337	\$ 61,147	\$ 533,708	\$ 1,106,192	\$ 10,157,968

(Concluded)

Internal Service Funds

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis.

Building Insurance Fund – This fund is used to account for the accumulation of costs associated with property and liability insurance.

Unemployment Compensation Fund – This fund is used to account for the accumulation of costs, and employee contributions associated with unemployment compensation.

Health Insurance Fund – This fund is used to account for the accumulation of costs, and employer and employee contributions associated with health insurance.

Worker's Compensation Fund – This fund is used to account for the accumulation of costs, and employer contributions associated with worker's compensation.

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2004

	<u>Building Insurance</u>	<u>Unemployment Compensation</u>	<u>Health Insurance</u>	<u>Worker's Compensation</u>	<u>Total Internal Service Funds</u>
ASSETS					
CURRENT:					
Cash and short-term investments.....	\$ 215,084	\$ 265,495	\$ 43,116	\$ 20,128	\$ 543,823
Working capital deposit.....	<u>-</u>	<u>-</u>	<u>376,400</u>	<u>-</u>	<u>376,400</u>
TOTAL ASSETS.....	<u>215,084</u>	<u>265,495</u>	<u>419,516</u>	<u>20,128</u>	<u>920,223</u>
LIABILITIES					
CURRENT:					
Health claims payable.....	-	-	439,000	-	439,000
Workers' compensation.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>291,000</u>	<u>291,000</u>
TOTAL LIABILITIES.....	<u>-</u>	<u>-</u>	<u>439,000</u>	<u>291,000</u>	<u>730,000</u>
NET ASSETS					
Unrestricted.....	<u>\$ 215,084</u>	<u>\$ 265,495</u>	<u>\$ (19,484)</u>	<u>\$ (270,872)</u>	<u>\$ 190,223</u>

INTERNAL SERVICE FUNDS
COMBININGS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2004

	Building Insurance	Unemployment Compensation	Health Insurance	Worker's Compensation	Total Internal Service Funds
OPERATING REVENUES:					
Employee contributions	\$ -	\$ 500,000	\$ 2,422,709	\$ -	\$ 2,922,709
Employer contributions	-	-	7,234,567	148,891	7,383,458
TOTAL OPERATING REVENUES	-	500,000	9,657,276	148,891	10,306,167
OPERATING EXPENSES:					
Property and liability insurance.....	1,648	-	-	-	1,648
Employee benefits	-	287,396	9,416,455	336,606	10,040,457
TOTAL OPERATING EXPENSES	1,648	287,396	9,416,455	336,606	10,042,105
OPERATING INCOME (LOSS).....	(1,648)	212,604	240,821	(187,715)	264,062
NONOPERATING REVENUES (EXPENSES):					
Investment income.....	2,164	3,120	6,169	-	11,453
CHANGE IN NET ASSETS.....	516	215,724	246,990	(187,715)	275,515
NET ASSETS AT BEGINNING OF YEAR.....	214,568	49,771	(266,474)	(83,157)	(85,292)
NET ASSETS AT END OF YEAR.....	\$ 215,084	\$ 265,495	\$ (19,484)	\$ (270,872)	\$ 190,223

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2004

	Building Insurance	Unemployment Compensation	Health Insurance	Worker's Compensation	Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users.....	\$ -	\$ 500,000	\$ 2,422,708	\$ -	\$ 2,922,708
Receipts from interfund services provided.....	-	-	7,234,568	148,890	7,383,458
Payments to vendors.....	(1,648)	-	-	-	(1,648)
Payments to employees.....	-	-	(74,044)	-	(74,044)
Payments for interfund services used.....	-	(287,396)	(9,548,912)	(311,733)	(10,148,041)
NET CASH FROM OPERATING ACTIVITIES.....	(1,648)	212,604	34,320	(162,843)	82,433
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment income.....	2,164	3,120	6,169	-	11,453
NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS.....	516	215,724	40,489	(162,843)	93,886
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR.....	214,568	49,771	2,627	182,971	449,937
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR.....	\$ 215,084	\$ 265,495	\$ 43,116	\$ 20,128	\$ 543,823
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:					
Operating income (loss).....	\$ (1,648)	\$ 212,604	\$ 240,821	\$ (187,715)	\$ 264,062
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Changes in assets and liabilities:					
Working capital deposit.....	-	-	(4,800)	-	(4,800)
Warrants payable.....	-	-	(208,631)	(57,128)	(265,759)
Accrued payroll.....	-	-	(1,070)	-	(1,070)
Health claims payable.....	-	-	8,000	-	8,000
Workers' compensation.....	-	-	-	82,000	82,000
Total adjustments.....	-	-	(206,501)	24,872	(181,629)
NET CASH FROM OPERATING ACTIVITIES.....	\$ (1,648)	\$ 212,604	\$ 34,320	\$ (162,843)	\$ 82,433

Agency Funds

Agency Funds are used to account for assets held in a purely custodial capacity.

Guarantee Deposits Fund – This fund is used to account for contractor's security deposits.

Other Deposits Fund – This fund is used to account for local church deposits.

Merrimack Valley Library Consortium Fund – This fund is used to account for receipts and disbursements on behalf of the Merrimack Valley Library Consortium.

AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

JUNE 30, 2004

	Beginning of Year	Additions	Deletions	End of Year
ASSETS				
CURRENT:				
Cash and short-term investments.....	\$ 243,342	\$ 884,589	\$ (749,725)	\$ 378,206
Investments.....	-	20,950		20,950
TOTAL ASSETS.....	<u>\$ 243,342</u>	<u>\$ 905,539</u>	<u>\$ (749,725)</u>	<u>\$ 399,156</u>
LIABILITIES				
Guarantee deposits.....	\$ 50,511	\$ 629		\$ 51,140
Other deposits.....	14,719	1,455		16,174
Merrimack valley library consortium.....	178,112	903,455	(749,725)	331,842
TOTAL LIABILITIES.....	<u>\$ 243,342</u>	<u>\$ 905,539</u>	<u>\$ (749,725)</u>	<u>\$ 399,156</u>

Statistical Section



The Public Safety Center was completed and occupied in June, 2004.

Statistical Section

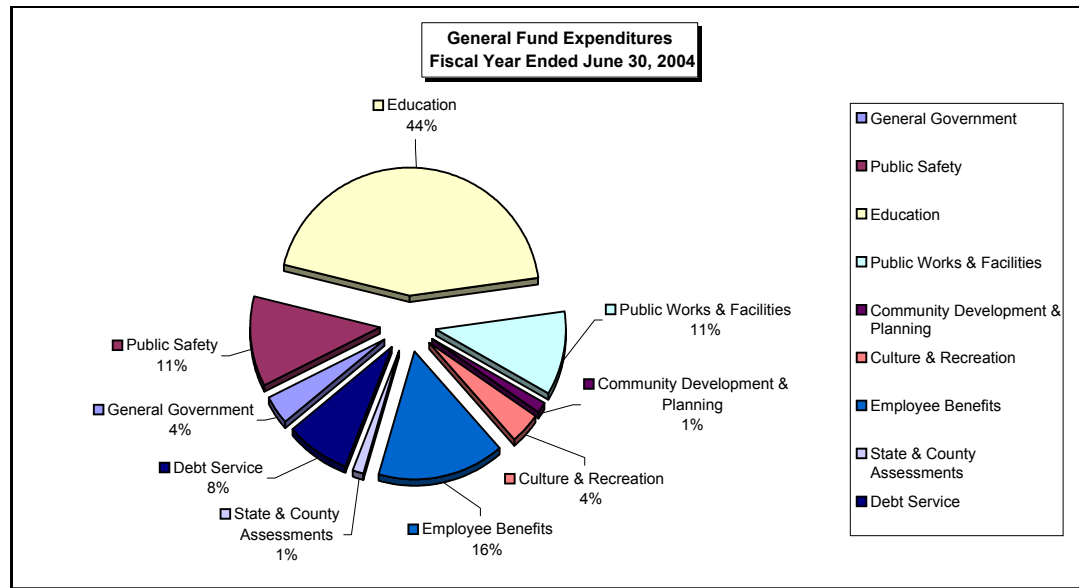
Statistical tables differ from financial statements since they usually cover more than one fiscal year and may present nonaccounting data. The following tables reflect social and economic data, financial trends, and fiscal capacity.

Town of Andover, Massachusetts

General Fund Expenditures by Function - Modified Accrual Basis

Last Ten Fiscal Years

	General Government (1)	Public Safety	Education	Public Works & Facilities	Community Development & Planning	Culture & Recreation (2)	Employee Benefits (3)	State & County Assessments	Debt Service	Total
1995	\$ 1,980,953	\$ 7,207,146	\$ 24,871,494	\$ 7,434,246	\$ 862,342	\$ 2,328,449	\$ 2,420,179	\$ 1,035,302	\$ 7,322,695	\$ 55,462,806
1996	\$ 1,757,024	\$ 7,613,243	\$ 27,567,473	\$ 9,675,477	\$ 833,042	\$ 2,294,099	\$ 5,582,781	\$ 1,023,997	\$ 7,405,517	\$ 63,752,653
1997	\$ 2,222,732	\$ 8,677,885	\$ 29,213,549	\$ 8,221,139	\$ 934,548	\$ 2,384,995	\$ 6,044,316	\$ 985,692	\$ 5,938,523	\$ 64,623,379
1998	\$ 2,443,710	\$ 8,997,553	\$ 31,281,562	\$ 8,258,201	\$ 1,113,327	\$ 3,111,735	\$ 6,095,950	\$ 1,015,466	\$ 6,668,500	\$ 68,986,004
1999	\$ 2,230,108	\$ 8,765,242	\$ 33,943,409	\$ 10,513,103	\$ 1,102,698	\$ 3,168,237	\$ 6,376,170	\$ 982,643	\$ 6,800,626	\$ 73,882,236
2000	\$ 2,212,763	\$ 10,203,582	\$ 36,914,179	\$ 9,630,547	\$ 1,059,830	\$ 3,324,383	\$ 11,864,777	\$ 980,904	\$ 7,079,263	\$ 83,270,228
2001	\$ 2,612,768	\$ 10,246,672	\$ 40,044,701	\$ 12,142,058	\$ 1,314,724	\$ 4,046,509	\$ 12,421,555	\$ 1,094,215	\$ 6,629,505	\$ 90,552,707
2002	\$ 3,095,784	\$ 10,482,387	\$ 43,619,296	\$ 10,104,418	\$ 1,279,839	\$ 3,983,138	\$ 12,752,020	\$ 1,227,461	\$ 7,582,606	\$ 94,126,949
2003	\$ 3,230,242	\$ 11,560,746	\$ 47,483,555	\$ 11,191,441	\$ 1,294,233	\$ 3,898,559	\$ 14,993,444	\$ 1,363,260	\$ 8,534,096	\$ 103,549,576
2004	\$ 3,985,072	\$ 12,069,147	\$ 47,023,679	\$ 11,416,682	\$ 1,386,635	\$ 4,144,614	\$ 17,162,132	\$ 1,370,609	\$ 8,715,714	\$ 107,274,284



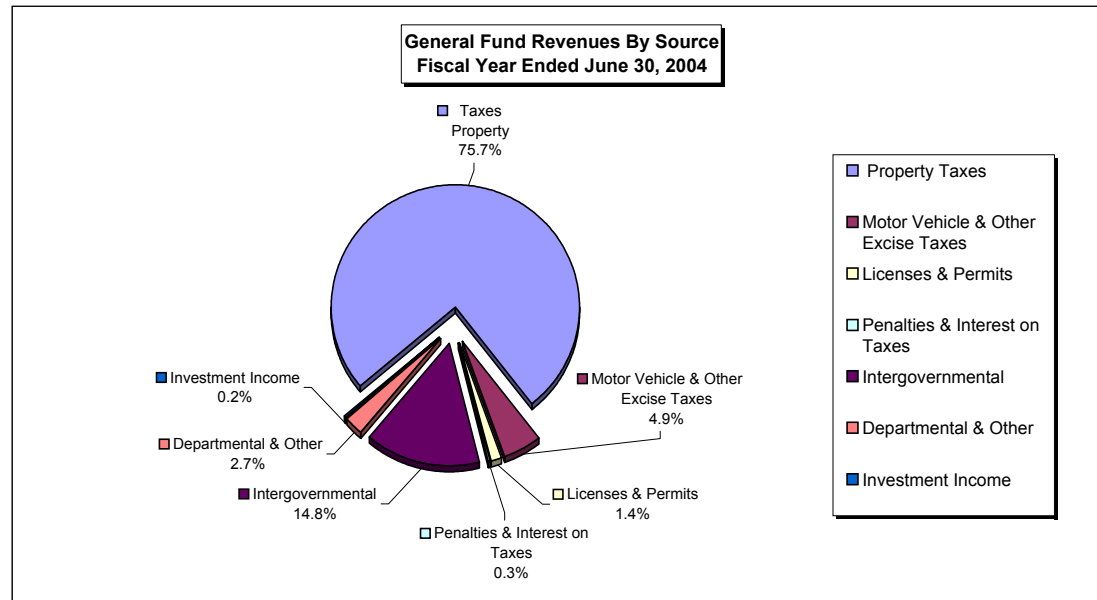
(1) Includes property and liability insurance

(2) Includes community services and library

(3) Includes Pension Benefits

Town of Andover, Massachusetts
General Fund Revenues by Source
Last Ten Fiscal Years

Fiscal Year	Property Taxes (1)	Motor Vehicle & Other Excise Taxes	Licenses & Permits	Penalties & Interest on Taxes	Intergovernmental	Departmental & Other	Investment Income	Total
1995	\$ 45,989,566	\$ 3,684,737	\$ 657,646	\$ 606,788	\$ 3,902,341	\$ 1,456,576	\$ 646,545	\$ 56,944,199
1996	\$ 49,421,580	\$ 3,252,804	\$ 754,874	\$ 667,484	\$ 4,763,881	\$ 1,248,481	\$ 666,505	\$ 60,775,609
1997	\$ 51,776,693	\$ 3,844,208	\$ 1,068,719	\$ 597,792	\$ 6,061,332	\$ 1,989,242	\$ 739,565	\$ 66,077,551
1998	\$ 54,899,870	\$ 4,737,031	\$ 797,276	\$ 584,344	\$ 7,918,911	\$ 1,358,810	\$ 853,793	\$ 71,150,035
1999	\$ 57,968,545	\$ 4,491,905	\$ 893,789	\$ 889,364	\$ 8,949,978	\$ 1,567,872	\$ 943,410	\$ 75,704,863
2000	\$ 61,518,606	\$ 4,739,915	\$ 1,357,694	\$ 675,107	\$ 14,437,741	\$ 1,342,685	\$ 1,126,103	\$ 85,197,851
2001	\$ 64,059,532	\$ 5,435,383	\$ 987,482	\$ 717,849	\$ 16,523,686	\$ 2,045,523	\$ 1,384,600	\$ 91,154,055
2002	\$ 69,363,700	\$ 5,419,022	\$ 967,515	\$ 711,293	\$ 16,213,838	\$ 1,702,026	\$ 825,395	\$ 95,202,789
2003	\$ 75,309,775	\$ 5,429,993	\$ 1,039,288	\$ 1,166,696	\$ 16,500,279	\$ 1,770,464	\$ 419,053	\$ 101,635,548
2004	\$ 77,931,470	\$ 5,074,722	\$ 1,464,509	\$ 265,747	\$ 15,291,416	\$ 2,746,270	\$ 233,798	\$ 103,007,932



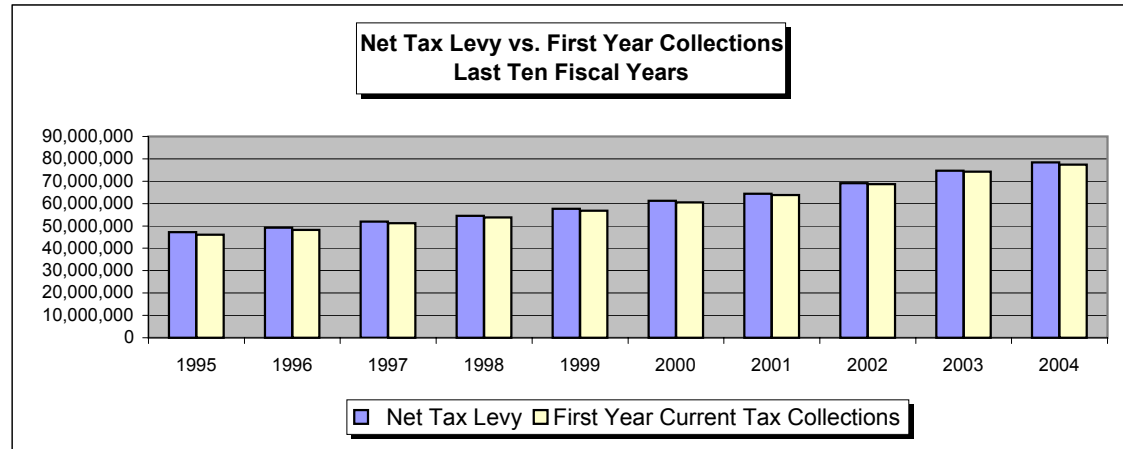
(1) Includes tax liens

Property Tax Levies and Collections

Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Less Actual Abatements & Exemptions	Net Tax Levy	Net as % of Total	First Year Current Tax Collections	Percent of Net Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Net Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Tax to Net Tax Levy
1995	\$ 47,955,136	\$ 721,215	\$ 47,233,921	98.50%	\$ 46,100,504	97.60%	\$ 1,133,417	\$ 47,233,921	100.00%	\$ -	0.00%
1996	\$ 50,284,408	\$ 1,068,768	\$ 49,215,641	97.87%	\$ 48,273,169	98.09%	\$ 941,270	\$ 49,214,439	100.00%	\$ 1,202	0.00%
1997 (1)	\$ 52,665,286	\$ 779,207	\$ 51,886,079	98.52%	\$ 51,157,695	98.60%	\$ 728,384	\$ 51,886,079	100.00%	\$ -	0.00%
1998	\$ 54,960,204	\$ 515,184	\$ 54,445,020	99.06%	\$ 53,733,126	98.69%	\$ 702,539	\$ 54,435,665	99.98%	\$ 9,356	0.02%
1999	\$ 58,081,474	\$ 480,809	\$ 57,600,665	99.17%	\$ 56,806,965	98.62%	\$ 793,676	\$ 57,600,641	100.00%	\$ 24	0.00%
2000 (1)	\$ 61,739,103	\$ 565,027	\$ 61,174,076	99.08%	\$ 60,478,995	98.86%	\$ 695,052	\$ 61,174,047	100.00%	\$ 28	0.00%
2001	\$ 64,931,425	\$ 612,404	\$ 64,319,021	99.06%	\$ 63,769,348	99.15%	\$ 531,861	\$ 64,301,209	99.97%	\$ 17,812	0.03%
2002	\$ 69,830,570	\$ 660,007	\$ 69,170,563	99.05%	\$ 68,631,635	99.22%	\$ 439,398	\$ 69,071,033	99.86%	\$ 99,530	0.14%
2003 (1)	\$ 75,831,100	\$ 1,148,137	\$ 74,682,963	98.49%	\$ 74,224,742	99.39%	\$ 205,093	\$ 74,429,835	99.66%	\$ 253,127	0.34%
2004	\$ 79,164,340	\$ 770,110	\$ 78,394,230	99.03%	\$ 77,461,156	98.81%	\$ -	\$ 77,461,156	98.81%	\$ 933,074	1.19%

(1) Revaluation Year

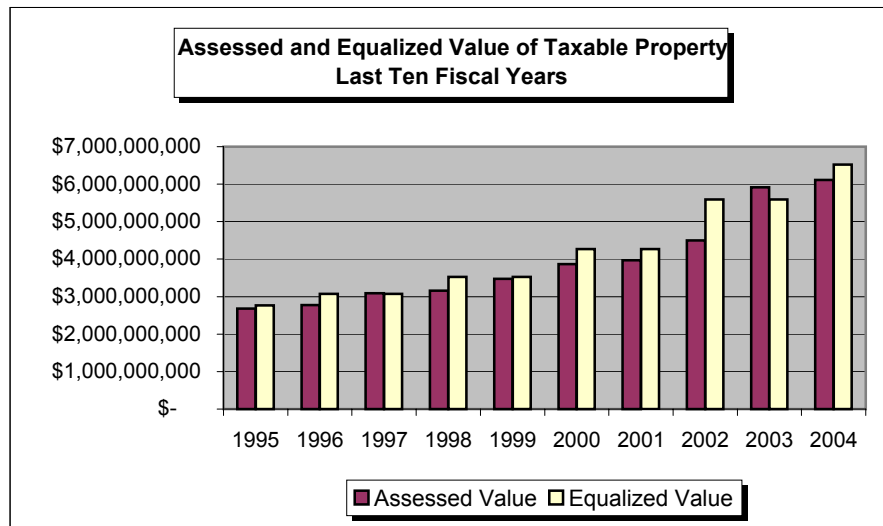


Town of Andover, Massachusetts

Assessed Value and Equalized Valuation of Taxable Property

Last Ten Fiscal Years

Fiscal Year	Assessed Value			U. S. Census Population	Total Assessed Value Per Capita	(2) Equalized Value	Ratio of Assessed to Equalized Value
	Real Property	Personal Property	Total				
1995	\$ 2,626,514,342	\$ 49,818,910	\$ 2,676,333,252	29,151	\$ 91,809	\$ 2,768,496,400	96.67%
1996	\$ 2,724,982,245	\$ 52,269,560	\$ 2,777,251,805	29,151	\$ 95,271	\$ 3,072,063,800	90.40%
1997 (1)	\$ 3,033,240,792	\$ 58,689,120	\$ 3,091,929,912	29,151	\$ 106,066	\$ 3,072,063,800	100.65%
1998	\$ 3,091,085,847	\$ 65,035,210	\$ 3,156,121,057	29,151	\$ 108,268	\$ 3,523,811,700	89.57%
1999	\$ 3,405,395,527	\$ 67,487,130	\$ 3,472,882,657	29,151	\$ 119,134	\$ 3,523,811,700	98.55%
2000 (1)	\$ 3,793,624,332	\$ 73,976,860	\$ 3,867,601,192	31,247	\$ 123,775	\$ 4,268,662,500	90.60%
2001	\$ 3,888,032,825	\$ 84,876,150	\$ 3,972,908,975	31,247	\$ 127,145	\$ 4,268,662,500	93.07%
2002	\$ 4,402,528,421	\$ 93,565,960	\$ 4,496,094,381	31,247	\$ 143,889	\$ 5,589,664,700	80.44%
2003 (1)	\$ 5,803,091,704	\$ 110,559,980	\$ 5,913,651,684	31,247	\$ 189,255	\$ 5,589,664,700	105.80%
2004	\$ 6,006,002,601	\$ 107,565,301	\$ 6,113,567,902	31,247	\$ 195,653	\$ 6,525,840,900	93.68%



(1) Revaluation Year

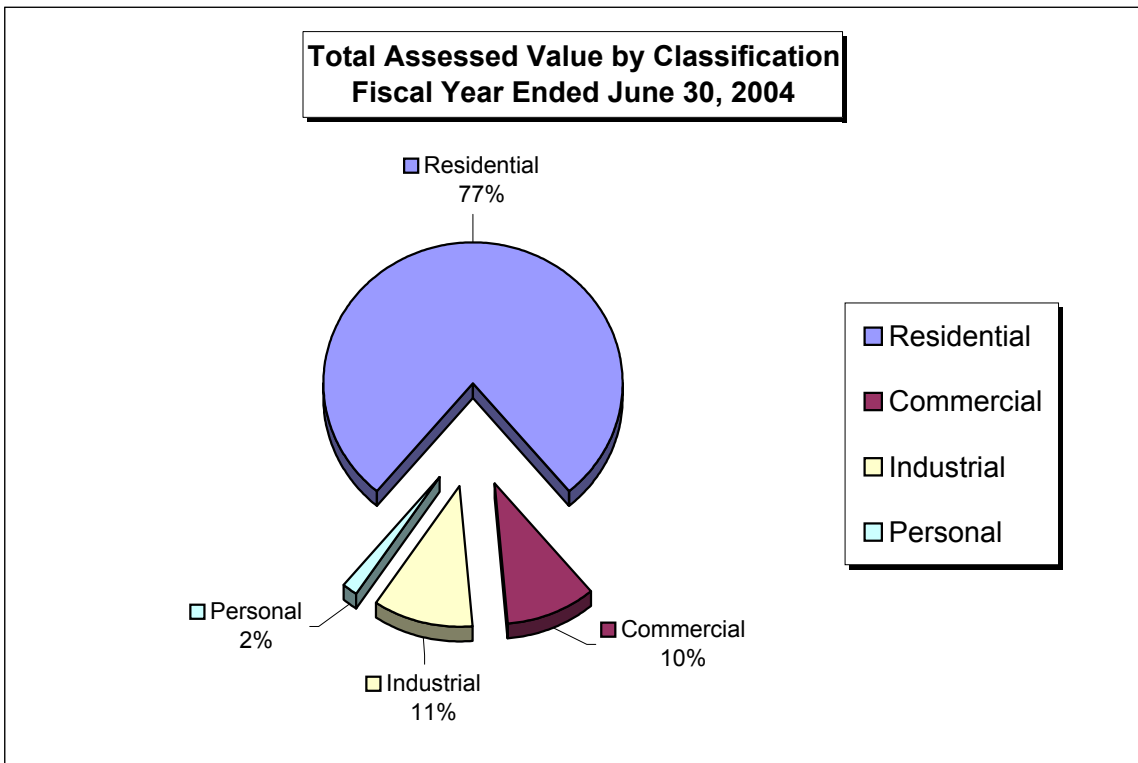
(2) Equalized valuations are determined biennially by the Commissioner of Revenue.

Sources: Assessing Department, Town of Andover

U.S. Census

Town of Andover, Massachusetts
Assessed Value of Taxable Property by Classification
Last Ten Fiscal Years

Fiscal Year	Residential Value	Residential % of Total Value	Commercial Value	Industrial Value	Personal Property	Total CIP Value	CIP % of Total Value	Total Town Value
1995	\$ 2,064,620,622	77.14%	\$ 218,424,220	\$ 343,469,500	\$ 49,818,910	\$ 611,712,630	22.86%	\$ 2,676,333,252
1996	\$ 2,155,918,524	77.63%	\$ 228,304,421	\$ 340,759,300	\$ 52,269,560	\$ 621,333,281	22.37%	\$ 2,777,251,805
1997 (1)	\$ 2,414,608,127	78.09%	\$ 274,642,365	\$ 343,990,300	\$ 58,689,120	\$ 677,321,785	21.91%	\$ 3,091,929,912
1998	\$ 2,445,616,947	77.49%	\$ 307,371,500	\$ 338,097,400	\$ 65,035,210	\$ 710,504,110	22.51%	\$ 3,156,121,057
1999	\$ 2,651,293,012	76.34%	\$ 377,843,715	\$ 376,258,800	\$ 67,487,130	\$ 821,589,645	23.66%	\$ 3,472,882,657
2000 (1)	\$ 2,937,428,052	75.95%	\$ 421,300,980	\$ 434,895,300	\$ 73,976,860	\$ 930,173,140	24.05%	\$ 3,867,601,192
2001	\$ 2,975,444,502	74.89%	\$ 440,880,123	\$ 471,708,200	\$ 84,876,150	\$ 997,464,473	25.11%	\$ 3,972,908,975
2002	\$ 3,337,867,183	74.24%	\$ 515,652,738	\$ 549,008,500	\$ 93,565,960	\$ 1,158,227,198	25.76%	\$ 4,496,094,381
2003 (1)	\$ 4,476,720,701	75.70%	\$ 641,178,403	\$ 685,192,600	\$ 110,559,980	\$ 1,436,930,983	24.30%	\$ 5,913,651,684
2004	\$ 4,755,952,886	77.79%	\$ 586,983,115	\$ 663,066,600	\$ 107,565,301	\$ 1,357,615,016	22.21%	\$ 6,113,567,902



(1) Revaluation Year

Source: Assessing Department, Town of Andover

Town of Andover, Massachusetts
Property Tax Rates Per \$1000 of Assessed Valuation
Last Ten Fiscal Years

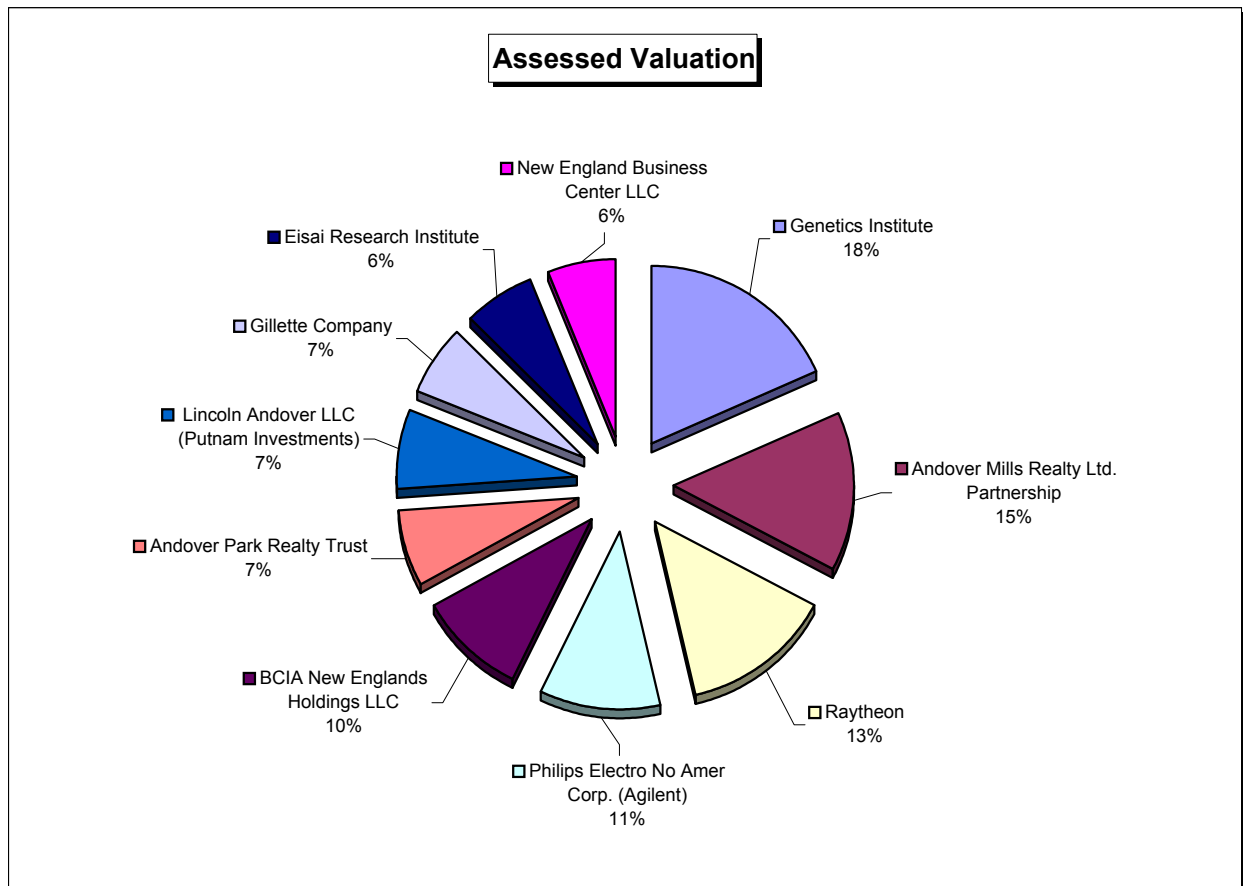
Fiscal Year	Residential	Open Space	Commercial Industrial & Personal
Assessed Valuation:			
1995	\$2,060,503,622	\$4,117,000	\$611,712,630
1996	\$2,151,901,324	\$4,017,200	\$621,333,281
1997 (1)	\$2,407,424,727	\$7,183,400	\$677,321,785
1998	\$2,438,473,847	\$7,143,100	\$710,504,110
1999	\$2,644,107,212	\$7,185,800	\$821,589,645
2000 (1)	\$2,930,548,052	\$6,880,000	\$930,173,140
2001	\$2,969,020,302	\$6,424,200	\$997,464,473
2002	\$3,330,997,683	\$6,869,500	\$1,158,227,198
2003 (1)	\$4,467,789,501	\$8,931,200	\$1,436,930,983
2004	\$4,747,196,486	\$8,756,400	\$1,357,615,016
Tax Levies:			
1995	\$33,091,688	\$66,119	\$14,797,329
1996	\$35,312,701	\$65,922	\$14,905,785
1997 (1)	\$37,266,935	\$111,199	\$15,287,153
1998	\$38,576,656	\$113,004	\$16,270,544
1999	\$40,111,106	\$109,009	\$17,861,359
2000 (1)	\$42,932,529	\$100,792	\$18,705,782
2001	\$44,297,783	\$95,849	\$20,537,794
2002	\$47,066,997	\$97,066	\$22,666,506
2003 (1)	\$51,960,392	\$103,870	\$23,766,838
2004	\$54,450,344	\$100,436	\$24,613,560
Tax Rates:			
1995	\$16.06	\$16.06	\$24.19
1996	\$16.41	\$16.41	\$23.99
1997 (1)	\$15.48	\$15.48	\$22.57
1998	\$15.82	\$15.82	\$22.90
1999	\$15.17	\$15.17	\$21.74
2000 (1)	\$14.65	\$14.65	\$20.11
2001	\$14.92	\$14.92	\$20.59
2002	\$14.13	\$14.13	\$19.57
2003 (1)	\$11.63	\$11.63	\$16.54
2004	\$11.47	\$11.47	\$18.13
(1) Revaluation Year			
Source: Assessing Department, Town of Andover			

Town of Andover, Massachusetts

Principal Taxpayers

FY 2004

Name	Nature of Business	FY 2004 Assessed Valuation	Amount of Tax	% of Total Tax Levy
Genetics Institute	Industrial	\$ 100,429,515	1,820,787	2.30%
Andover Mills Realty Ltd. Partnership	Office	\$ 80,145,300	1,446,456	1.83%
Raytheon	Industrial	\$ 74,268,843	1,341,680	1.69%
Philips Electro No Amer Corp. (Agilent)	Industrial	\$ 59,887,800	1,085,766	1.37%
BCIA New Englands Holdings LLC	Office/Industrial	\$ 53,593,300	971,080	1.23%
Andover Park Realty Trust	Industrial	\$ 39,228,300	711,209	0.90%
Lincoln Andover LLC (Putnam Investments)	Commercial	\$ 38,397,941	696,155	0.88%
Gillette Company	Industrial	\$ 35,851,200	649,982	0.82%
Eisai Research Institute	Office/Industrial	\$ 34,885,827	632,480	0.80%
New England Business Center LLC	Industrial/Utility	\$ 33,992,700	616,288	0.78%



Source: Assessing Division, Town of Andover

Town of Andover, Massachusetts
Computation of Legal Debt Margin

June 30, 2004

State equalized valuation - real estate and personal property (proposed for June 1, 2004)	(1)	<u><u>\$6,525,840,900</u></u>
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Debt Limit - 5% of equalized valuation		\$326,292,045
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Total bonded debt (including authorized and unissued of \$48,127,052	\$137,802,052
----------------------------------------------------------------------	---------------

Less bonded debt not included in computation of legal debt margin, as defined by Massachusetts statutes.	(2)	(\$29,985,982)
----------------------------------------------------------------------------------------------------------	-----	----------------

Less bonded debt authorized but not yet issued which is outside the debt limit.	(2)	<u><u>(\$5,172,000)</u></u>
---------------------------------------------------------------------------------	-----	-----------------------------

Total debt applicable to limitation	<u><u>\$102,644,070</u></u>
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Legal Debt Margin	<u><u>\$223,647,975</u></u>
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(1) The equalization of all taxable property in the State of Massachusetts is conducted bi-annually by the Massachusetts Department of Revenue.

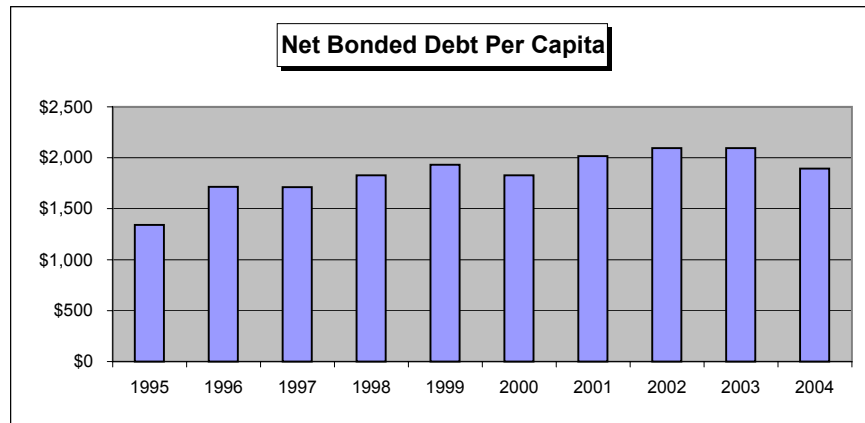
(2) Subject to an "outside" debt limit of 5% of the Town's equalized valuation.

Town of Andover, Massachusetts

**Ratio of Net General Obligation Bonded Debt
to Equalized Value and Net Bonded Debt per Capita**

Last Ten Fiscal Years

Fiscal Year	U.S. Census Population	State Equalized Value	Outstanding Gross Bonded Debt	Less Self-Supporting Debt	Net Bonded Debt	Ratio of Net Bonded Debt To Assessed Value	Net Bonded Debt Per Capita
1995	29,151	\$2,768,496,400	\$58,224,650	\$19,153,500	\$39,071,150	1.41%	\$1,340
1996	29,151	\$3,072,063,800	\$68,021,950	\$18,060,000	\$49,961,950	1.63%	\$1,714
1997	29,151	\$3,072,063,800	\$68,099,250	\$18,236,900	\$49,862,350	1.62%	\$1,710
1998	29,151	\$3,523,811,700	\$73,171,550	\$19,843,800	\$53,327,750	1.51%	\$1,829
1999	29,151	\$3,523,811,700	\$77,546,550	\$21,218,800	\$56,327,750	1.60%	\$1,932
2000	31,247	\$4,268,662,500	\$73,975,000	\$16,818,500	\$57,156,500	1.34%	\$1,829
2001	31,247	\$4,268,662,500	\$86,673,000	\$23,625,000	\$63,048,000	1.48%	\$2,018
2002	31,247	\$5,589,664,700	\$91,563,000	\$26,142,000	\$65,421,000	1.17%	\$2,094
2003	31,247	\$5,589,664,700	\$98,060,000	\$32,647,776	\$65,412,224	1.17%	\$2,093
2004	31,247	\$6,525,840,900	\$89,675,000	\$30,471,197	\$59,203,803	0.91%	\$1,895



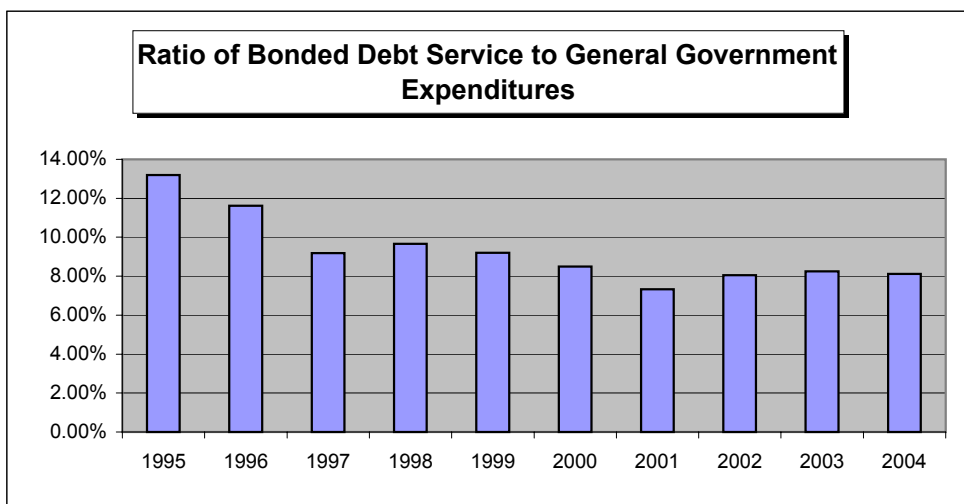
Source: Audited Financial Statements, U.S. Census

Town of Andover, Massachusetts

**Ratio of Annual Debt Service Expenditures for General Obligation Bonded Debt
to Total General Fund Expenditures**

Last Ten Fiscal Years

Fiscal Year	Annual Debt Service	Town General Governmental Expenditures	Ratio of Bonded Debt Service to General Government Expenditures
1995	\$7,322,695	\$55,462,806	13.20%
1996	\$7,405,517	\$63,752,653	11.62%
1997	\$5,938,523	\$64,623,379	9.19%
1998	\$6,668,500	\$68,986,004	9.67%
1999	\$6,800,626	\$73,882,236	9.20%
2000	\$7,079,263	\$83,270,228	8.50%
2001	\$6,629,505	\$90,552,707	7.32%
2002	\$7,582,606	\$94,126,949	8.06%
2003	\$8,534,096	\$103,549,576	8.24%
2004	\$8,715,714	\$107,274,284	8.12%



Town of Andover, Massachusetts
Computation of Direct & Overlapping Bonded Debt
General Obligation Bonds

June 30, 2004

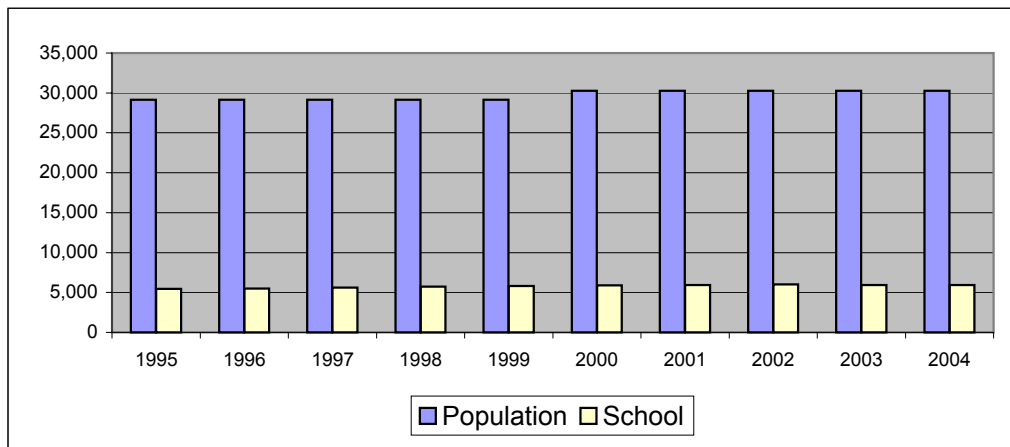
Jurisdiction	General Obligation Bonded Debt Outstanding	Percentage Applicable to Town of Andover	Amount Applicable to Town of Andover
Direct:			
Town of Andover	\$89,675,000	100%	\$89,675,000
Overlapping:			
Greater Lawrence Regional Vocational Tech	\$44,045,000	0.80%	\$352,360
Greater Lawrence Sanitary District	<u>\$13,488,638</u>	6.40%	<u>\$863,273</u>
Total Overlapping Debt	<u>\$57,533,638</u>		<u>\$1,215,633</u>
Total Direct and Overlapping Debt	<u><u>\$147,208,638</u></u>		<u><u>\$90,890,633</u></u>

Town of Andover, Massachusetts
Age, Income and Wealth Levels

Category	Year	Andover	Massachusetts
Median Age	1990	36.4	33.6
	2000	39.5	36.5
Median Family Income	1990	\$70,757	\$44,367
	2000	\$104,820	\$61,664
Per Capita Income	1990	\$26,327	\$17,244
	2000	\$41,133	\$25,952

Town of Andover, Massachusetts
Population and School Enrollment Changes
Last Ten Fiscal Years

Year	Population	Increase Decrease	School Enrollment	Increase Decrease	School % of Total
1995	29,151		5,465		18.7%
1996	29,151	0	5,508	43	18.9%
1997	29,151	0	5,628	120	19.3%
1998	29,151	0	5,734	106	19.7%
1999	29,151	0	5,832	98	20.0%
2000	30,251	1,100	5,913	81	19.5%
2001	30,251	0	5,931	18	19.6%
2002	30,251	0	6,009	78	19.9%
2003	30,251	0	5,926	-83	19.6%
2004	30,251	0	5,922	-4	19.6%



Sources: MA Department of Education, MA Department of Revenue, Division of Local Services

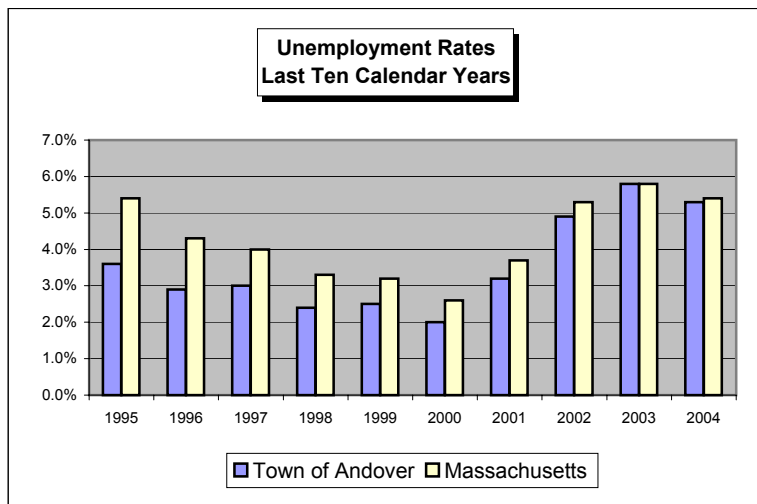
Town of Andover, Massachusetts

Annual Unemployment Rates

Last Ten Calendar Years

Calendar Year	Labor Force	Employment	Town of Andover	Massachusetts
1995	16,504	15,910	3.6%	5.4%
1996	16,897	16,407	2.9%	4.3%
1997	16,600	16,102	3.0%	4.0%
1998	16,646	16,246	2.4%	3.3%
1999	16,969	16,545	2.5%	3.2%
2000	16,973	16,634	2.0%	2.6%
2001	17,069	16,523	3.2%	3.7%
2002	17,888	17,011	4.9%	5.3%
2003	16,722	15,752	5.8%	5.8%
2004	16,773	15,884	5.3%	5.4%

Source: MA Department of Employment and Training



Town of Andover, Massachusetts

**Building Permits
(Amounts in thousands)**

Last Ten Years

Calendar Year	New Construction				Other (1)			Totals	
	Residential		Non-Residential						
	Estimated		Estimated		Estimated			Estimated	
	Number	Value	Number	Value	Number	Value		Number	Value
1995	67	\$12,898	2	\$5,002	1,023	\$60,754	(2)	1,092	\$78,654
1996	95	\$19,057	4	\$24,581	1,129	\$31,484	(3)	1,228	\$75,122
1997	78	\$15,185	8	\$35,879	1,092	\$35,847		1,178	\$86,911
1998	69	\$13,869	1	\$600	1,071	\$45,529		1,141	\$59,998
1999	63	\$14,151	13	\$20,058	1,072	\$63,450		1,148	\$97,659
2000	63	\$28,381	26	\$31,501	821	\$93,633		910	\$153,515
2001	33	\$9,206	7	\$18,688	1,038	\$103,371		1,078	\$131,265
2002	34	\$13,791	4	\$22,558	1,074	\$72,523		1,112	\$108,872
2003	54	\$29,537	1	\$2,113	1,254	\$50,140		1,309	\$81,790
2004	35	\$14,138	0	\$0	680	\$28,973		715	\$43,111

(1) Miscellaneous permits for all types of property, repairs, remodeling, swimming pools, etc.

(2) Includes \$23,060,000 for the High School and Sanborn Elementary School and \$7,600,000 for Philips Academy

(3) Includes South School permit of \$5,700,000 and Philips Academy permit of \$1,400,000

Source: Town of Andover, Building Department